

GOVERNOR PATRICK SIGNS PENSION REFORM LEGISLATION

Reforms will save Massachusetts \$5 billion, including \$2 billion for cities and



(Governor Patrick joins Treasurer Steven Grossman, Secretary Jay Gonzalez, Sen. Katherine Clark, Rep. Russell Holmes, Rep. John W. Scibak and others at a signing ceremony today. Photo credit: Eric Haynes/Governor's office)

BOSTON - Friday, November 18, 2011 – Governor Deval Patrick today signed comprehensive pension reform legislation, continuing the Patrick-Murray Administration's efforts to end abuses and close loopholes to create a sustainable public pension system. The bill signed today, S. 2065, "An Act Providing For Pension Reform and Benefit Modernization", builds on legislation signed during the Governor's first term that eliminated the most egregious abuses in the public retirement system.

"We are committed to finding additional ways to eliminate costs in state government and end abuses within the system," said Governor Patrick. "I'm proud to sign this third phase of comprehensive pension

reform legislation that will improve the public's trust in government and ensure the pension system's economic sustainability for future generations."

Coupled with the initial two phases of reform, this comprehensive package is expected to save taxpayers more than \$5 billion over 30 years, including an estimated \$2 billion for cities and towns across the Commonwealth.

"This next phase of pension reform compliments our Administration's ongoing focus to deliver savings, renewed trust, and improvements within the state pension system," said Lieutenant Governor Timothy Murray. "We thank the legislature for their continued partnership in supporting long-term sustainability for the retirement system."

The legislation increases the retirement age for most state workers to more closely align the state with federal guidelines set for Social Security benefits and eliminates incentives to retire early. Additionally, the reforms allows retirees who married a person of the same sex within the a year following the legalization of same sex marriage the retirement option to provide a benefit to their spouse.

"The reforms we make today will ensure the public employee pension system is fair, credible, and fiscally sustainable for future state employees," said Secretary of Administration and Finance Jay Gonzalez. "With these reforms we are preserving the financial structure of Massachusetts' retirement system and restoring public confidence in state government."

The legislation will continue to eliminate abuses in the system with new reforms limiting the right to receive a pension while receiving compensation for service as an elected official, requiring elected officials to repay the full value of the pension they have received in order to rejoin the system. This is consistent with guidelines for all other state employees and allows retirement boards to require retirees convicted of a criminal offense related to their employment to repay benefits since the date of their offense, not just the date of their conviction.

"After eliminating some of the biggest loopholes two years ago, we were committed to taking on the more complicated issues in our pension system," said Senate President Therese Murray. "These latest reforms will modernize our system, reduce unfunded liabilities and save taxpayers money. Senator Clark and Representative Scibak worked very hard with all interests to produce a balanced bill with the changes we needed for long-term sustainability."

"With the Governor's signature on the latest pension reform legislation, we take another step to saving taxpayers' money and securing the financial future of our Commonwealth," said House Speaker Robert A. DeLeo. "Not only are we managing our way through the worst economic downturn since the Great Depression, we are leading the nation in taking measures to preserve the economic wellbeing of our state for future generations."

"This legislation modernizes our state pension system and closes important loopholes while maintaining a strong benefit for our public employees," said Senator Katherine Clark, Senate chair of the Joint Committee on Public Service. "These reforms will ensure that we continue to have a strong and fiscally sound system for our future employees."

“Earlier this year, Speaker DeLeo and Governor Patrick made a commitment to enact pension reform and ensure the viability of our existing system,” said Representative John W. Scibak, House Chair of the Joint Committee on Public Service. “While this bill will save over six billion dollars over the next 30 years, it provides additional relief for current retirees, protects the retirement savings of existing employees, closes loopholes to prevent further fraud, and ensures that future employees will be also able to rely on our state pension system. I applaud the Speaker, the Governor and Senate President for their leadership on this issue, as well as my fellow conferees for addressing this issue head-on, and to my colleagues in the House for their affirmative vote.”

“These reforms update the nation’s oldest state pension system to the 21st century,” said Alicia H. Munnell, Director of the Center for Retirement Research at Boston College. “They will allow Massachusetts to maintain the defined benefit plan for years to come, which is the most secure way to provide meaningful retirement income for its public sector workers.”

The third phase of pension reform includes:

1. **Defined benefit system:** The legislation protects the existing defined benefit system by making it more equitable and sustainable.
2. **Increased retirement age:** The legislation incorporates the Governor’s proposal to increase 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. This change will more closely align the state system with the retirement ages already set by the federal government for Social Security benefits.
3. **Eliminates early retirement subsidies:** The current system provides an incentive to retire before reaching maximum retirement age, as the increase in benefits resulting from additional years of service is less than the benefit of additional years of pension. The legislation eliminates this incentive.
4. **Savings.** These reform measures will generate over \$5 billion in pension funding savings over 30 years, including an estimated \$2 billion for cities and towns. These savings will help address the state’s long-term liabilities and reduce the length of the state’s pension funding schedule by three to five years.
5. **Anti-spiking.** The legislation introduces an anti-spiking rule, limiting the annual increase in pensionable earnings to no more than 10 percent of the average pensionable earnings over the last two years. This provision would not apply to bona fide promotions or job changes. The legislation also bases pension calculations on the average salary over five years instead of three.
6. **Pro-rates benefits based on employment history.** The retirement allowance for new employees who serve in more than one group will be pro-rated, 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.
7. **COLA.** The legislation includes a COLA provision which increases the base salary on which retirees receive a cost-of-living increase from \$12,000 to \$13,000.

8. **Double Dipping.** The legislation eliminates the right to receive a pension while receiving compensation for service as an elected official in the same position unless one year has passed from the end of the previous elected term.