01.18.11 Pension Reform Phase Three Bill Filing

GOVERNOR DEVAL L. PATRICK
PENSION REFORM BILL FILING
JANUARY 18, 2011
Good afternoon.

You all know how vital I believe it is that we bear our generational responsibility, the obligation each of us owes to do what we can to leave things better for those who come behind us. That is why I have committed to expanding our economy and creating jobs, to containing health care costs, to closing the achievement gap in the schools, and to curbing youth violence.

That is also why I have committed to fix what's broken in state government. In partnership with the Legislature, we enacted long-awaited reforms in ethics, transportation, education and state pensions in the last session. We will build on that in this session.

Today I'm proud to stand with Senate President Murray, Speaker DeLeo and Treasurer-elect Grossman to announce the filing of the next set of reforms in the state pension system.

The State retirement system is a defined benefit plan. The average annual pension for state retirees is about $26,000. The typical public employee contributes 11% of his or her annual wages to the pension system, meaning that today most employees will receive at retirement what they paid in. Massachusetts' public employees are also not covered by Social Security.But for a long time long that was not the case. A series of loopholes and avoided decisions has left us with an unfunded pension liability of $20 billion. That problem was not created overnight and it will not be solved overnight. I support the defined benefit program. But without these reforms, it is not sustainable.

So the bill we are filing today contains a number of important reform measures:

• First, we will extend the retirement age for virtually all state workers, including elected officials, from 55 to 60, with maximum retirement benefits at 67. This change will align our system more closely with the retirement ages already set for Social Security benefits and in the private sector.

• Second, we will eliminate the incentive for state workers to leave the workforce at the minimum retirement age. Workers who choose to retire early will receive a pro rata reduction in their retirement benefit.

• Third, we will increase the period of "averaging" used to determine retirement allowance from 3 to 5 years.

• We will impose an anti-spiking rule that will limit excessive jumps in pension eligibility that may come in the absence of earned promotions or job changes.

• And we will end "double dipping," by eliminating the right of elected officials to receive a pension while receiving compensation for public service, and by requiring elected officials to repay the full value of the pension they have received in order to rejoin the system, just like any other state employee.

There are a number of other provisions in this legislation. Secretary Gonzalez, who will be the administration's point on this issue, is available after this press conference to walk you through the details and answer any technical questions you may have.

Taken together, these proposals will generate over $5 billion in pension funding savings over 30 years, including an estimated $2 billion for cities and towns. This proposal will also reduce the cost of retiree health benefits by $1 billion to the state and another $1 billion to cities and towns over the next 30 years as a result of later retirement ages. All of this builds on our previous round of pension reform.

I want to thank our public sector unions for working with us on this proposal and I look forward to working with the Speaker, the Senate President and their colleagues to move these common sense measures into law.