Massachusetts Taxpayers Foundation

Testimony of Michael J. Widmer
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Before the Joint Committee on Public Service
In Support of the Governor's Pension Reform Proposal

I am here today to testify in support of H35, the Governor's comprehensive proposal to strengthen the long-term financing of the pension system while preserving a generous retirement program for state and municipal employees.

The Governor's proposal builds on previous reforms in 2009 and 2010 that successfully closed many longstanding loopholes but did not address systemic reform. Given the enormous state and municipal fiscal challenges, it is imperative to control the escalating growth in employee benefit costs in order to preserve jobs and public services.

The state and municipalities in Massachusetts face $30 billion in unfunded pension obligations. Even before the recent recession and stock market collapse, pension costs were consuming greater and greater shares of the state and municipal budgets.

In response, last year the Legislature extended until 2040 the period for municipalities to pay off their unfunded pension liabilities. And now the administration is asking the Legislature to do same for the state – and thus avoid a $900 million or 60 percent increase in pension expenditures in the fiscal 2012 budget.

So we are passing the problem along to another generation of taxpayers. And to compound the problem, the $30 billion in unfunded state and municipal pension obligations may well be understated by several billion dollars.

Most pension plans assume annual returns of 8 percent or more on their investments. Although these returns were achieved in the past, most analysts now believe that long-term investment returns are likely to be closer to 5 or 6 percent. This lower rate of return would add billions in unfunded obligations, requiring larger annual contributions and more cuts in basic services.

What's worse, as highlighted in the Foundation's recent report, unfunded retiree health care obligations are much greater than pension obligations, adding another huge burden that few if any cities and towns can actually afford.

In the context of the size of these funding shortfalls, the proposals put forward by the Governor are indeed modest.

The Governor's plan seeks to modernize pension benefits developed decades ago when life expectancies were shorter. Increasing retirement ages and reducing financial incentives to retire early would align the state's system with Social Security norms that apply to all Americans.

And, for the most part, these changes apply only to new hires and not current employees. So a 25-year-old who begins working for the state in 2011 would not feel the impact until he/she elected to retire in 2053.

Other states have moved much more aggressively to address their unaffordable pension obligations. The Governor's pension reform bill provides a reasonable yet critical step in reining in unsustainable pension costs for the state and municipalities in Massachusetts, while still providing a level of guaranteed retirement benefits that are largely a thing of the past for most of the Commonwealth's citizens.

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