



Massachusetts Taxpayers Foundation

Senate Presidents' Forum

Michael J. Widmer

President

Massachusetts Taxpayers Foundation

September 24, 2010

Factors Placing Financial Pressure on Pension Plans

- Retirees
 - Aging of Baby Boomers
 - Increasing life expectancy
- Funding
 - Historical underfunding combined with regular benefit sweeteners
 - Recent large investment losses
 - Optimistic earnings projections
 - Global economic recession
 - Many states facing long-term structural deficits

Financial Pressure (cont.)

- Political
 - Power of public employee unions
 - Taxpayer outrage at much richer public pension plans

Key Variables Determining Long-Term Costs

- Vesting – length of time employee must work before becoming eligible for benefits at retirement
- Baseline formula for “full” benefit – % of salary times years of service
- Definition of “salary” – which alternative forms of compensation are included
- Normal retirement – age and/or years of service at which employee is eligible for full benefit

Key Variables (cont.)

- Early retirement – age at which employee can elect to retire early, and formula for calculating reduced benefit
- Maximum benefit – either a dollar cap or percentage of final salary, or a maximum number of years of service
- Employee contribution – percent of his/her salary paid each year by employee
- Inflation adjustment – formula for annual cost-of-living allowances for retirees
- Enhanced retirement benefits for certain groups such as police and fire – also standards for determining disability

Overriding Issues

- Legal limits on pension changes
 - Current retirees
 - Current employees (vested)
 - Current employees (not vested)
 - New hires
- Increased scrutiny by rating agencies
- Unless states act, funding of pensions will undercut ability to provide basic services