Senate Presidents’ Forum

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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