



September 13, 2011

Dear Senator:

The Massachusetts Taxpayers Foundation strongly urges you to reject any amendments to the proposed pension reform legislation that would lessen the savings included in the bill. In its current form, the proposal achieves approximately \$5 billion in savings, the minimum goal set forth by the ratings agencies.

The pension reform legislation is part of the Legislature's action, included in the 2012 budget, to extend from 2025 to 2040 the period to fund fully the state's \$17 billion unfunded liability. This action was taken in order to prevent an \$800 million increase in the pension appropriation for 2012, but it comes at a high price. Extending the payment schedule to 2040 will cost the state an additional \$30 billion between now and 2040; this is equivalent to \$11.7 billion in current dollars.

It is important to emphasize that virtually all of the reforms included in the legislation apply only to those hired after January 1, 2012, such as raising the minimum retirement age from 55 to 60 and the full retirement age from 65 to 67 for most employees and lengthening the period for calculating the final average salary from three years to five years.

Some contend that there is no need for these reforms because employees' contributions will cover their ultimate benefit, but that is seriously misleading. While public employees in Massachusetts contribute a higher percentage of their salaries than in most other states, more than half of the individual's retirement benefit comes from investment earnings. And the state and municipalities bear all the risk if those earnings fall short of the assumed 8.25 percent average annual return, as is likely to be the case. For example, if the state pension plan earns 7.75 percent annually, instead of 8.25 percent, it would cost taxpayers an additional \$3 billion over 30 years, wiping out the state's entire share of the savings in the pension reform legislation. According to the Pew Center on the States, if the plan earns 5.2 percent annually—the return assumption that most private plans use—it would cost Massachusetts taxpayers an astounding \$26 billion extra over 30 years.

The legislation already includes several enhancements worth billions of dollars which reduces net savings to \$3 billion for the state and \$2 billion for municipalities. The most expensive enhancement increases the base amount for calculating the annual cost-of-living adjustment (COLA) to \$13,000 from \$12,000 for retirees, current employees, and future hires. This enhancement will cost the state and municipalities more than \$2 billion. The 100 local systems in the state have an aggregate funding ratio of just 59 percent—far below the recommended minimum of 80 percent. Local systems already may increase their COLA base at local option, but only a fraction of communities have approved such a change. Seven local systems reduced or eliminated COLAs for fiscal 2012, and at least three systems, including the Essex Regional plan which represents 19 towns, have rejected the COLA base increase because it is unaffordable.

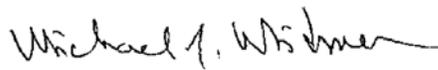
In the past two fiscal years, 39 other states have enacted substantial pension reforms, including increasing employee contributions, adding to the years of service to vest in the system, raising the retirement age, and lengthening the period for final average salary calculations. Of those 39 states, 17 included reforms that reduced or eliminated COLA payments. No state enacted meaningful enhancements for COLAs or other benefits.

Furthermore, the state and municipalities face enormous retiree health care liabilities with virtually no capacity to fund them. The state's 50 largest municipalities have a total of \$20 billion in unfunded retiree health care liabilities, which is two-and-a-half times greater than their total unfunded pension liabilities.

Any amendments which weaken this proposal will place the state's credit rating at serious risk. In recent ratings reviews, both Moody's and Standard and Poor's cited the state's large pension liabilities as a concern and highlighted the importance of pension reform for the state to maintain its rating.

We urge you to follow in the footsteps of municipal health reform by approving meaningful pension reform legislation which will help protect the jobs of local teachers, police officers, and firefighters while preserving generous pension and health care benefits for these public employees.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Widmer". The signature is written in a cursive style with a long, sweeping underline.

Michael J. Widmer  
President