

Reforming our Pension System

We have all read about recent egregious examples of pension abuse. This undermines public trust and confidence in our government, increases costs to taxpayers, and is unfair to the vast majority of public employees who play by the rules. I'm pleased that pension reform is a top priority for both the legislature and Governor Patrick.

The Massachusetts Public Employee Retirement System covers all state and local government employees and retirees, including teachers. The system is a defined benefit pension, jointly funded by employee and employer contributions. Public employees in Massachusetts do not participate in Social Security; their retirement security rests entirely on the pension system.

The pension system is detailed in Chapter 32 of the Massachusetts General Laws, dating back to the early 1900s. More than 500 pages of complex legal language describe eligibility requirements and benefits. Further complicating the system is the fact that countless amendments, modifications, and special provisions (often benefiting specific groups of people) have been added over the years.

Funding for the pension system comes from employee contributions, investment earnings, and payments from the state. The specific benefits that each person receives when he/she retires are based upon four factors: years of eligible service, maximum three years of compensation, job classification, and retirement age.

While pension benefits are often criticized for being overly generous, the reality for most state employees is quite different. The average retiree currently receives an annual pension of \$24,000. Public employees hired since 1996 contribute from 9% to 12% of their salary each month into the pension fund. Many of these employees will receive a pension when they retire which may actually be worth less than the accumulated value of their contributions and investment returns.

While the majority of public employees receive fair and reasonable retirement benefits, some are able to take advantage of the weaknesses in the system to receive excessive benefits. As a result, employees are not all treated fairly, taxpayers bear a much greater burden, and public trust in government is discredited.

Pension reform is critical to correct these abuses and ensure the fairness, integrity, and long-term viability of the system. There are a number of reforms which we should pursue immediately, including:

- Abolish the MBTA's "23 years and out" rule that allows some MBTA retirees to start receiving a pension while still in their 40s.
- Eliminate the "one day, one year" provision which grants some people credit for an entire year of service for as little as one day of work. Pension credit should be accrued only for actual time employed.
- Prohibit the purchase of pension credit for years of service as a local official in positions such as Library Trustee or Moderator. Purchasing credit for these years of service requires a small monetary contribution, but provides as much credit toward pension benefits as full-time salaried work.
- Limit the definition of compensation used to calculate pension benefits to only wages and salaries, ending the practice of including non-salary items such as housing or transportation allowances.
- Eliminate the loophole which enables some people to collect two pensions at the same time.
- Tighten eligibility or eliminate "Section 10 termination benefits" which allow employees with 20 years of service who are terminated or whose positions are eliminated (including elected officials who are defeated or choose not to seek re-election) to begin collecting an enhanced pension before the standard minimum age of 55.
- Ensure greater transparency in detailing the financial impact of any changes to the pension laws.

Acting swiftly to enact these reforms will demonstrate that our elected officials are serious about ending pension abuses and restoring integrity to the pension system. The vast majority of public employees who play by the rules and earn a fair and reasonable pension for their years of service would applaud these changes.

I welcome your feedback on pension reform or any other issues. Please visit our website at www.RepJasonLewis.com. You can also reach me at 617 722-2060 or by email at Jason.Lewis@state.ma.us.

Author's Note: This column draws upon research conducted by the Pioneer Institute

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