

July/August 2007

Governor Signs Pension Bill

Goal to lessen pressure on the property tax

Massachusetts Retirement Boards entered a new phase in July when the Governor signed into law legislation that would require certain municipal pension systems, falling below newly designated thresholds, to merge into the Commonwealth's higher performing Pension Reserves Investment Trust Fund (PRIT).

The passage of Chapter 68 of the Acts of 2007, is one more step in the Governor's plan to lessen the pressure on the property tax and municipal budgets and to further a partnership with communities. This bill was originally part of the Governor's Municipal Partnership Act and was separated out by the Legislature for action.

This new law requires an annual assessment of individual retirement systems' investment performance and funded ratio. If a system is less than 65% funded AND has trailed the performance of the PRIT Fund by 2% or more on an annualized basis over the previous 10-year period, the system will be declared underperforming and the system shall transfer its assets to the PRIT fund. The transfer of these assets is permanent, but the local retirement boards will continue to administer the system.

Currently, pension systems may elect to transfer some or all of their assets into the

PRIT fund. This enables a system to be selective and participate in a fund that has a better return than realized by the individual system. This does not change under the new law.

The Results - The preliminary data indicates that 25 local pension systems are classified as underperforming. Of the 25, six have already voluntarily transferred their assets into the PRIT fund. That leaves 19 on the list for possible asset transfer. It is expected that a portion of these systems will submit data by the October 1st deadline that will remove them from the list.

What this means for Boston - Available data reflecting the 10-year period as of January 2006, show Boston barely meeting the benchmark requirements. Boston's 10-year rate of return is 8.87 while PRIT's return was 10.51. Boston's funded ratio is 64.4% slightly below the 65% requirement. The Act requires a system to fall below both of these benchmarks in order to be deemed underperforming. It is expected that Boston will continue to be close to these benchmarks even after factoring in the data as of January 2007.