



# Do We Need Them? How Many Retirement Boards Are Necessary to Provide Pension Benefits for Massachusetts Public Employees

by Iliya Atanasov and Casey Miles

## Executive Summary

Currently, there are 103 municipal, regional and agency retirement systems for public employees in Massachusetts, each administered by a five-person board and various numbers of board staff. Significant operational savings would result from consolidating these retirement systems. This could be accomplished by combining the boards into a single municipal retirement board or merging them with the state board, among other options. This policy brief highlights the savings that would likely result from board consolidation by using different estimates of the number of board staff needed to serve employees and retirees in a consolidated board.

## Issue and Background

Especially during difficult economic times, retirement systems often add to the fiscal challenges many localities face. Cost cutting is an ever-present possibility and benefit cuts are a close second to staff cuts as a target for policymakers wielding the budget axe. What often escapes public attention are the unnecessary administrative costs that burden many retirement systems across the country. Pension reform must first and foremost entail pension management reform if retirement systems are to be put on a path to sustainability.

Massachusetts public employees' retirement benefits are managed by a slew of organizations, notably the retirement boards of various governmental units and the Group Insurance Commission (GIC), which was originally created to provide healthcare and wellness benefits for state employees. In September 2005, the Municipal Health Insurance Working Group composed of leaders of municipal organizations, employee unions, retired municipal employee organizations, state legislators and GIC senior staff drafted legislation to

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allow municipalities to access the GIC's health coverage, thereby providing an opportunity for both employees and retirees to benefit from savings on the administration of their health plans.

However, no such initiative has been undertaken by stakeholders to provide opportunities for savings from pension overheads; legislation allowing public employees to opt into a consolidated state retirement system introduced in 2011 and 2012 has not gained traction in the state legislature. There are 105 public-employee contributory retirement systems in Massachusetts: the state employees' retirement system; the teachers' retirement system; and 103 municipal, regional and agency retirement systems hereafter referred to as "the local systems." Each local system is governed by an independent five-member board, but all systems and the benefits they provide are strictly defined by Chapter 32 of the Massachusetts General Laws, which governs public pensions.

The law provides uniform benefits, uniform contribution requirements and a uniform accounting and funding structure, which apply to statewide and local systems alike. The boards' autonomy only extends to a limited set of functions, but even in those issue areas their authority is constrained considerably:

- Determinations regarding individual applications for retirement and disability benefits from members of the system, which can be appealed to the Public Employee Retirement Administration Commission (PERAC), the state's public-pensions watchdog;
- Pension-fund investment decisions, which must be approved by PERAC before they can be implemented;
- Cost-of-living adjustments, which have to be confirmed by the governing body of the system's constituency;
- Development of funding plans for the system's liability based on the strict guidelines of Chapter 32 and subject to approval by PERAC.

The operating expenses for each board include the costs of investment and professional services as well as board members' statutory stipends, the salaries and benefits of their staff and other miscellaneous administrative expenses. Each system determines its own budget and its expenses are funded directly from its investment income – in other words, from the assets that are supposed to provide retirement benefits.

Given retirement boards' limited functions, the question naturally arises as to whether the bureaucratic sprawl that characterizes public pension management in Massachusetts is really necessary. Savings can be generated from two sources:

- Significantly reducing the number of board members, which would trim stipend, travel and other reimbursement expenses to a fraction of their current level; and
- Improving the match between fund staff and the number of current and former public employees they serve.

### Board-Level Savings

The main argument for maintaining so many retirement systems has been the desire to preserve local autonomy in employment decisions. This autonomy has largely been a myth, particularly in the aftermath of the pension reform laws of 2009 and 2011.<sup>1</sup> As summarized earlier, the current version of Chapter 32 leaves local boards with very little discretion. With that in mind, the only possible objection could be that a smaller consolidated board would not allow enough representation for all stakeholder groups. However, the main stakeholders participating in the management of retirement systems – police, firefighters and other public employees – are already represented by their respective unions, which can easily be included in the management of a consolidated system. The interests of the governmental units will also remain unaffected because they can retain their say on COLAs and other matters even if the pensions are operationally managed by a single board.

Thus, the only remaining concern that must be taken into consideration is the most efficient way to serve the needs of employees and retirees in the public retirement system. If the boards of the 103 local systems in Massachusetts were combined to create a statewide board, an appropriate number of staff would be needed to serve employees and retirees across the jurisdictions covered.

As of yearend 2011, the 103 local boards had a total of 218,029 employees and retirees.<sup>2</sup> By comparison, the GIC – which serves over 220,000 beneficiaries, according to 2012 data – consists of 15 commissioners, including representatives of the Massachusetts Municipal Association, the Professional Firefighters of Massachusetts, the two largest American unions, AFL-CIO and SEIU, state and local officials and current retirees. Because the two organizations would serve approximately the same number of members and because administering healthcare benefits is much more complicated than managing public pensions, it is reasonable to conclude that 15 members are quite sufficient for a consolidated retirement system board, which can be just as representative as the GIC.

Subject to approval by local legislative bodies, individual retirement board members are statutorily eligible to receive annual stipends of up to \$4,500 per year (the state legislature raised the maximum limit on stipends from \$3,000 to \$4,500, effective in 2012). PERAC’s most recently published individual audits of 103 retirement boards – issued between 2007 and 2012 – indicate that 78 of 103 retirement

boards cumulatively paid about \$1.1 million in annual stipends to board members as of their last reported payment. Twenty-five other boards did not pay stipends, according to the audits, but these data are not up to date and PERAC does not provide online information on individual stipend payments. Depending on how local legislative bodies respond to the recent legislation authorizing an increase in stipend amounts, the reduction in the total number of board members from 510 to 15 resulting from a statewide consolidation of retirement systems would generate annual stipend savings of between \$1.1 and \$2.2 million.

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The consolidation of all local public retirement systems in Massachusetts would save up to \$2.2 million annually just from board members’ stipends.

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### **Savings from Efficient Allocation of Personnel**

To determine the appropriate staffing level for the consolidated board, one can look at the staffing levels of the local boards and the commonwealth boards (Fig. 1). The median local board had 518 beneficiaries for every board employee, but the least staffed board – Newton – was almost three times as efficient. Only the state’s and the teachers’ systems have lower staffing levels – 2,299 and 1,661 beneficiaries an employee respectively – compared

**Figure 1: Retirement Board Staffing Levels<sup>4</sup>**

<b>Retirement System(s)</b>	<b>Board Members</b>	<b>Board Staff</b>	<b>Employees</b>	<b>Retirees</b>	<b>Total Beneficiaries</b>	<b>Employees per Staff</b>	<b>Retirees per Staff</b>	<b>Total Beneficiaries per Staff</b>
Mass State	5	61	86,586	53,627	140,213	1,419	879	2,299
Mass Teachers	9	86	87,136	55,690	142,826	1,013	648	1,661
Local Total	505	319	131,220	86,809	218,029	411	272	683
Local Median	5	2	624	402	1,036	312	201	518
Local Average	5	3	1,274	843	2,117	411	272	683
<b>All Systems</b>	<b>519</b>	<b>466</b>	<b>304,942</b>	<b>196,126</b>	<b>501,068</b>	<b>654</b>	<b>421</b>	<b>1,075</b>

with Newton’s 1,491. Boston, the largest local system and third largest overall, has almost 12 times more beneficiaries, but Newton’s staff serve almost 1,500 beneficiaries each while Boston’s serve only about 723 each.

These data provide two useful parameters for the efficiencies that can reasonably be achieved:

1. An unfavorable outcome of about 1,000 beneficiaries for every staff member (the average for all 105 systems).
2. A favorable outcome of about 2,300 beneficiaries for every staff member (similar to the state system).

While the annual pay of board employees may be available through the state’s transparency facilities, no reliable estimates are available for their total compensation, which includes healthcare, pension and other benefits. Therefore, the results of consolidation in these two scenarios are presented in Fig. 2 at different possible levels of total cost per board employee. A value of about \$75,000 annually – comprising about \$40,000 in pay and \$35,000 in lifetime benefits – could be considered

most reasonable. In that case, the favorable scenario with 95 staff in the consolidated local system would generate \$17 million in annual savings.

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**The consolidation of local boards into a single system would save up to \$22.4 million in labor costs.**

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Taking this idea one step further, it is possible to save more by consolidating all the boards. At the end of 2011, all public retirement systems in the commonwealth served just over 500,000 active and retired members. If the statewide consolidated system was staffed at a level of one employee for every 2,300 beneficiaries, this would imply labor-cost savings of up to about \$25 million (Fig. 3). Combined with the savings from board members’ stipends, consolidation would result in a total annual savings of up to \$27 million. These savings would continue every year so that by 2024 the system would have more than \$340 million extra in reserves, assuming a modest 5% rate of return.

**Figure 2: Savings from Consolidation of Local Boards at Different Levels of Staff Cost**

Scenario	Beneficiaries per Board Staffer	Staff Total	Savings at Different Levels of Staff Cost		
			\$50,000	\$75,000	\$100,000
Current	677	319	\$0	\$0	\$0
Unfavorable	1,000	218	\$5,050,000	\$7,575,000	\$10,100,000
Favorable	2,300	95	\$11,200,000	\$16,800,000	\$22,400,000

**Figure 3: Savings from Consolidation of All Public Retirement Systems in Massachusetts**

Scenario	Beneficiaries per Board Staffer	Staff Total	Savings at Different Levels of Staff Cost		
			\$50,000	\$75,000	\$100,000
Current	1,068	466	\$0	\$0	\$0
Consolidated	2,300	218	\$12,400,000	\$18,600,000	\$24,800,000

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The consolidation of all Massachusetts public retirement systems can save up to \$27 million annually in direct labor costs alone. When reinvested, this adds up to \$340 million over 10 years.

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## **Conclusions**

In addition to making the services provided to active and retired members more efficient and consistent across the state, a consolidated retirement system would also provide a benefit that would not be immediately visible on any accountant's books – better transparency and accountability in Massachusetts public-pension management.

It is hard enough to police the many state and local agencies that exist outside of the retirement systems, why add 105 retirement boards and entrust them with tens of billions of dollars of taxpayers' money? The unnecessary complexity of the retirement system has allowed quite a few abuses by beneficiaries, board employees and contractors and much too often the public has not been reimbursed for those losses.

In a consolidated system, localities could retain any flexibility they currently have regarding pension benefits – the only difference would be that the decisions would be executed by a single statewide retirement system. The benefits provided by one jurisdiction can be shielded from underfunding in another not just by walling off the contributions of different localities, but even by shielding individual member accounts. All of these are political decisions independent of the fundamental fact that a consolidated system would be cheaper and more transparent than the status quo.

And the direct labor-cost savings from cutting a bloated bureaucracy are only the tip of the iceberg. The current multitude of systems employs an even greater multitude of contractors: dozens of custodians and investment consultants and hundreds of investment managers, whose annual billings dwarf the boards' operating overheads. The systems'

massive investment expenses will be the subject of a subsequent study, but consolidation would substantially decrease those costs as well, helping put public pensions on a firmer footing.

## **Endnotes**

1. 2009 St. 21, 2011 St. 176.
2. The data were sourced from PERAC's annual reports as of yearend 2011 except the number of board members and staff, which were obtained from the 15th edition of the *Retirement Boards of the Commonwealth* booklet published by the Retired State, County and Municipal Employees Association of Massachusetts in January 2012. The data were updated in accordance with staff reported on boards' websites between 1 and 8 August 2013. To ensure that board staff are not undercounted in the association booklet, the larger of the two numbers was taken as basis for the assessments. The full data and the numbers used are available in the numerical appendix.
3. Refer to the appendix for detailed board data.
4. Local average and median exclude the state and teachers' systems and represent the individual listed statistic, not any particular system. Numbers may not add exactly due to rounding.

**Appendix. Massachusetts Public Retirement Systems' Membership and Personnel**

<b>Retirement System</b>	<b>Board Members</b>	<b>Board Staff by Website</b>	<b>Board Staff by Booklet</b>	<b>Staff Assumed</b>	<b>Employees</b>	<b>Retirees</b>	<b>Total Beneficiaries</b>
Adams	5	1	1	1	203	137	340
Amesbury	5	1	1	1	268	219	487
Andover	4	2	2	2	707	363	1,070
Arlington	5	2	2	2	661	630	1,291
Athol	4	2	1	2	202	148	350
Attleboro	5	NA	2	2	626	383	1,009
Barnstable County	5	7	7	7	4,786	2,422	7,208
Belmont	5	1	1	1	425	343	768
Berkshire County	5	3	3	3	1,170	679	1,849
Beverly	5	1	2	2	585	463	1,048
Blue Hills Regional School	5	NA	1	1	42	52	94
Boston	5	46	47	47	20,015	13,958	33,973
Braintree	5	3	3	3	731	501	1,232
Bristol County	5	NA	4	4	3,334	2,111	5,445
Brockton	5	NA	4	4	1,623	1,278	2,901
Brookline	5	3	3	3	1,272	853	2,125
Cambridge	5	7	6	7	3,614	1,809	5,423
Chelsea	5	2	2	2	659	384	1,043
Chicopee	5	1	4	4	1,193	809	2,002
Clinton	5	1	1	1	239	103	342
Concord	5	2	1	2	488	260	748
Danvers	5	2	2	2	464	389	853
Dedham	5	1	2	5	442	303	745
Dukes County	5	1	2	2	602	236	838
Easthampton	5	1	2	2	220	132	352
Essex Regional	5	5	6	6	3,013	1,624	4,637
Everett	5	NA	2	2	655	556	1,211
Fairhaven	5	NA	1	1	263	178	441
Fall River	5	1	4	4	1,582	1,513	3,095
Falmouth	4	2	2	2	624	331	955
Fitchburg	5	1	1	1	589	535	1,124
Framingham	5	NA	3	3	1,153	771	1,924
Franklin Regional	5	4	4	4	969	442	1,411
Gardner	5	1	1	1	254	239	493
Gloucester	5	2	2	2	515	437	952
Greater Lawrence Sanitary District	5	NA	1	1	45	21	66
Greenfield	5	1	1	1	381	230	611

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Hampden County	4	4	4	4	2,589	1,494	4,083
Hampshire County	5	5	5	5	1,979	1,033	3,012
Haverhill	5	4	3	4	876	1,094	1,970
Hingham	5	1	1	1	542	269	811
Holyoke	5	4	4	4	1,203	900	2,103
Hull	5	1	1	1	171	130	301
Lawrence	5	3	3	3	1,368	878	2,246
Leominster	4	2	2	2	530	384	914
Lexington	5	1	2	2	597	397	994
Lowell	5	1	3	3	1,603	1,157	2,760
Lynn	5	1	2	2	1,286	1,198	2,484
Malden	5	2	3	3	800	658	1,458
Marblehead	5	1	2	2	344	326	670
Marlborough	5	2	2	2	682	352	1,034
Mass Housing Finance Agency	5	NA	2	2	354	98	452
Mass Port Authority	5	3	3	3	1,089	579	1,668
Mass Water Resources Authority	5	3	3	3	1,110	341	1,451
Maynard	5	NA	1	1	198	90	288
Medford	5	1	1	1	716	602	1,318
Melrose	5	2	1	2	412	378	790
Methuen	5	2	2	2	633	407	1,040
Middlesex County	5	18	7	18	8,946	4,833	13,779
Milford	4	1	2	2	441	274	715
Milton	5	1	1	1	334	277	611
Minuteman Regional School District	4	NA	1	1	48	37	85
Montague	5	1	1	1	200	109	309
Natick	5	1	2	2	559	360	919
Needham	5	0	2	2	631	487	1,118
New Bedford	5	NA	4	4	2,085	1,761	3,846
Newburyport	5	NA	1	1	349	216	565
Newton	5	2	2	2	1,669	1,312	2,981
Norfolk County	5	NA	7	7	5,526	2,870	8,396
North Adams	4	1	1	1	369	211	580
North Attleboro	5	NA	1	1	504	215	719
Northampton	5	2	2	2	602	342	944
Northbridge	5	1	1	1	182	103	285
Norwood	4	1	2	2	588	343	931

## Do We Need Them?

Retirement System	Board Members	Board Staff by Website	Board Staff by Booklet	Staff Assumed	Employees	Retirees	Total Beneficiaries
Peabody	5	2	2	2	829	779	1,608
Pittsfield	5	2	2	2	929	749	1,678
Plymouth	5	1	3	3	957	562	1,519
Plymouth County	5	2	8	8	5,775	3,442	9,217
Quincy	5	1	4	4	1,419	1,613	3,032
Reading	5	1	1	1	333	329	662
Revere	5	2	2	2	492	544	1,036
Salem	5	1	3	3	827	594	1,421
Saugus	5	1	1	1	342	282	624
Shrewsbury	5	1	1	1	591	227	818
Somerville	5	NA	4	4	1,120	897	2,017
Southbridge	5	1	1	1	340	166	506
Springfield	5	7	5	7	3,244	2,818	6,062
Stoneham	5	2	2	2	268	286	554
Swampscott	5	2	2	2	226	213	439
Taunton	5	2	2	2	1,252	753	2,005
Wakefield	5	2	2	2	427	355	782
Waltham	5	1	4	4	854	785	1,639
Watertown	5	2	2	2	475	414	889
Webster	5	1	1	1	242	130	372
Wellesley	5	3	2	3	663	402	1,065
West Springfield	5	2	2	2	564	363	927
Westfield	5	1	3	3	894	553	1,447
Weymouth	5	2	2	2	804	640	1,444
Winchester	5	1	1	1	363	286	649
Winthrop	4	1	1	1	247	169	416
Woburn	5	2	3	3	570	402	972
Worcester	5	NA	5	5	3,208	2,798	6,006
Worcester Regional	5	8	7	8	6,236	2,901	9,137
Mass State	5	61	59	61	86,586	53,627	140,213
Mass Teachers	9	86	86	86	87,136	55,690	142,826
<b>Local Systems</b>	<b>505</b>	<b>233</b>	<b>299</b>	<b>319</b>	<b>131,220</b>	<b>86,809</b>	<b>218,029</b>
<b>Commonwealth Systems</b>	<b>14</b>	<b>147</b>	<b>145</b>	<b>147</b>	<b>173,722</b>	<b>109,317</b>	<b>283,039</b>
<b>TOTAL</b>	<b>519</b>	<b>380</b>	<b>444</b>	<b>466</b>	<b>304,942</b>	<b>196,126</b>	<b>501,068</b>