MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

The Advisor for our Retired members

A periodic publication of the Massachusetts Teachers' Retirement System as a service to its members June 2013

In this issue…

A message from the Chairman 2

NASRA brief
Contrary to popular belief, pension costs across the country are not a significant drain on state coffers 3

The MTRS: Who we are
Statistics on our membership, retirement benefits and funding 4–5

Important reminders
Know when to contact us, and be familiar with the restrictions on post-retirement employment 6–7

Non-Option C retirees
Designate a beneficiary to receive any payments due upon your death 8

MTRS
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

BASE REMAINS $13,000

3% COLA included in proposed budget for FY2014

If approved, would allow a maximum annual increase of $390, effective July 1

As we go to press, the Governor's and Legislature's proposed budget for FY2014 included a recommended cost-of-living adjustment (COLA) of 3% on the first $13,000 of eligible MTRS retirees' benefits, for a maximum annual increase of $390 for the fiscal year beginning July 1, 2013. To be eligible to receive this COLA, you must have retired on or before June 30, 2012.

Although the percentage increase in the recommended COLA exceeds the increase in the Consumer Price Index—1.7%—the Legislature and Governor may allow up to 3%. As both have consistently approved a 3% COLA for many years, we are hopeful that they will approve this amount again this year. The increase, if approved, will take effect in our retirees' July benefit payments.

Before the MTRS can pay any COLA, however, the FY2014 budget must *first* be finalized.

For the latest information, please watch our website at mass.gov/mtrs—or better yet, join our e-mail list and we'll send an update on the status of the COLA right to your Inbox *(see page 2)*.

Dear Retirees, thank you!

98% of you returned your Benefit Verification Forms on time and notarized

As most of you know, every other year, we conduct a process by which we verify all benefit recipients' continued eligibility to receive payments, and 2013 was a Benefit Verification year.

This past January, we mailed blue and yellow Benefit Verification forms to our 58,874 members who were receiving a monthly benefit as of December 31, 2012. We are very happy to report that, as we go to press, we have received all but 1,043 of these forms—a return rate of 98%. Again, thank you for your cooperation!

If you are among the 1,043 retirees who have **not** yet returned your completed, notarized form, please be sure to respond to the final notice that you should have received in June. If you do not submit your final notice by the due date indicated, your MTRS benefit allowance will be interrupted, beginning with your July payment, and not reinstated until you complete and return your Benefit Verification form.

If you have received and misplaced your final notice, and you need a new form, we will send you one. If you are unable to get to a notary, we will tell you what to do.
As always, if you have any questions, please call us at 617-679-6877.

We, too, stand BOSTON STRONG—**in support** of the Marathon bombing victims and their families, and **in gratitude** to the first-responders and public safety personnel

Jeff Wulfson, Chairman

FROM THE CHAIRMAN

Looking ahead with eyes wide open: Investment projections must be realistic

Recent pension reforms strengthened our plan's finances inside; we must now adopt realistic outside investment returns

MTRS has over $20 billion in investments, funded in large part from your payroll contributions during active service. The income from these investments helps fund future pension benefits, so the recent run up in the stock market is, of course, good news.

Our investment fund, along with funds from many other Massachusetts public pension plans, is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board is chaired by Treasurer Steve Grossman and includes two MTRS members: Dennis Naughton represents the MTRS Board and Robert Brousseau is elected by the MTRS membership.

Over the past ten years, PRIM has given us an impressive 8.91% annual return on our investments. PRIM benefits from full-time professional investment managers and from the luxury of always investing for the long term, two advantages not available to most individuals managing their own 401K savings.

MTRS financial projections currently assume that our investments will return 8.25% in the years ahead. In response to the market turmoil of recent years, most public pension systems in the U.S. have reduced their projected rate of return to under 8%, and the MTRS Board is recommending that we do so as well. There is a growing consensus among finance experts, including our own investment managers at PRIM, that the extraordinarily high returns seen during recent decades cannot be sustained in the long term without assuming an unacceptably high level of risk.

Any decrease in the assumed rate of return will, in the short term, require additional taxpayer funding. But an unrealistically high assumption for future returns feeds public skepticism about public pension plans, notwithstanding the reforms of recent years that have greatly strengthened our finances. If we believe that a strong public pension system is of great benefit not just to our educators but to the taxpayers who support them, then we must make that argument using reasonable and realistic financial projections.

Enjoy your summer!

Jeff Wulfson

Stay up to date on retirement issues—

Have retirement updates delivered right to your Inbox when you **join our e-mail list!**

Just give us your e-mail address and you'll get advance notice of upcoming seminars, important announcements and retirement news delivered right to your Inbox. It's easy!

1) Go to **mass.gov/mtrs**.
2) Click on **join our e-mail list** in the right margin.
3) Complete the simple online form with your MTRS member status (retired), name and your e-mail address.
4) Watch your e-mail for periodic updates!

New e-mail address? No problem—just send your old and new addresses to us at **geninfo@trb.state.ma.us** and we'll update our records so that you don't miss any updates!

How much do state and local governments **really** spend to fund public employee retirement systems? Just 3% nationwide

State and local government pension benefits are paid not from general operating revenues, but from trust funds to which public retirees and their employers contributed while they were working. On a nationwide basis, pension contributions made by state and local governments account for roughly 3% of total spending. Current pension spending levels, however, vary widely and are sufficient for some entities and insufficient for others.

In the wake of the 2008–09 market decline, nearly every state and many cities have taken steps to improve the financial condition of their retirement plans and to reduce costs. Although some lawmakers have considered closing existing pension plans to new hires, most determined that this would increase—rather than reduce—costs, particularly in the near term. Instead, states and cities have made changes to the pension plan by adjusting employee and employer contribution levels, restructuring benefits, or both. Generally, any adjustments to pension plan costs have been proportionate to the plan's funding condition and the degree of change needed.

Three Percent Nationwide

Based on the most recent information provided by the U.S. Census Bureau, approximately 3% of all state and local government spending is used to fund pension benefits for employees of state and local government. Pension costs since 1980 have been reliably stable, declining from around 4% to 3% in 2010.

Pension costs since 1980 have been reliably stable, declining from around 4% to 3% in 2010.

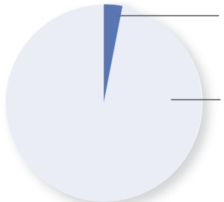
Although pensions are not the state-local budget-drain that some claim they are, spending levels for states and cities do vary from the national average, from less than 1% to more than four percent. [In Massachusetts, the total spent on contributions to pensions in 2010 was 3.36%.] One study estimates that total required spending on pensions could consume as much as 13% of one state's budget, due partly to past failures to adequately fund pension costs and assuming a relatively low 5% investment return. The chronic failure by some pension plan sponsors to pay required contributions results in greater future contributions to make up the difference.

Cost and Financing Factors

Public pensions are financed through a combination of contributions from public employers (state and local agencies) and public employees, and the investment returns on those contributions.

Employee Contributions: Because the vast majority of public employees are required to contribute toward the cost of their pension benefit—typically 4 to 8% of pay—most state and local government retirement plans are mandatory

State and local spending on public pensions as a percentage of total government spending, 2010



savings programs. In recent years, many states have increased required employee contributions.

Employer Contributions: A variety of state and local laws and policies guide governmental pension funding practices. Most require employers to contribute what is known as the Annual Required Contribution, which is the amount needed to finance benefits being accrued each year, plus the cost to amortize unfunded liabilities from past years, minus required employee contributions.

Social Security Coverage: Twenty-five to thirty percent of state and local governments and their employees make contributions to their retirement plan instead of to Social Security. This is the case for most to substantially all of the state and local government workforce in Massachusetts and six other states, 40% of the nation's public school teachers, and a majority of firefighters and police officers. Pension benefits—and costs—for those who do not participate in Social Security are usually higher than for those who do participate in order to compensate for the absence of Social Security benefits. This higher cost should be considered in the context of the 12.4% of payroll, or an estimated $31.2 billion annually, these employers and employees would otherwise be paying into Social Security.

Investments and Other Parts of the Financing Equation: Although the market decline of 2008–09 lowered public pension fund asset values, macro-economic events also affect the cost of the plan. These events include such changes as retirement rates, attrition (such as hiring freezes), and wage growth (including salary cuts/layoffs). Additionally, legislatures in over 40 states have made changes to pension benefits and/or financing structures, in some cases, reducing plan costs and long-term obligations.

Conclusion

On average, retirement programs remain a small part of state and local government spending, although required costs, benefit levels, funding levels, and funding adequacy vary widely. Over $210 billion is distributed annually from these trusts to retirees and their beneficiaries, which serves as a source of economic stimulus to virtually every city and town in the nation.

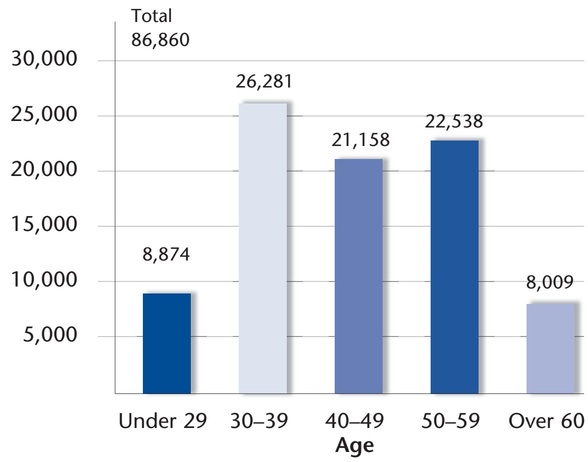
Excerpted from NASRA Issue Brief of May 9, 2013, and reprinted with permission from the National Association of State Retirement Administrators. For the full article and additional information, visit www.nasra.org.

Our Massachusetts Teac

Who we are—and regarding our fundin

A profile of our membership

Our active members, by age



In 2004, the ratio of active members to retirees was 5:2, meaning there were five active members for every two retirees. It is now 3:2.

Who we are...

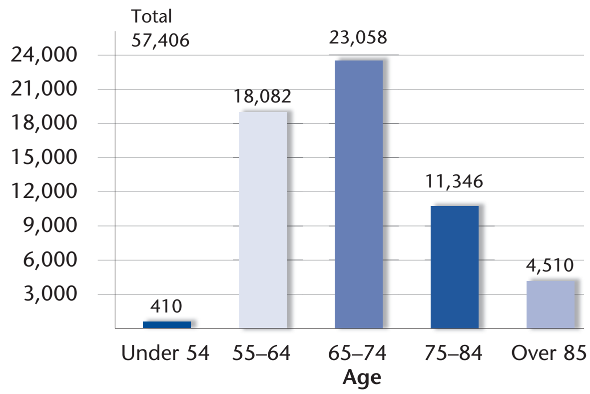
Active members

- Average **salary** $65,105
- Average **age** . . . . 44.2 years
- Average **service** . . 12.8 years
- Total member compensation . $5.65 billion
- Employee contributions . . $610 million

Retired members

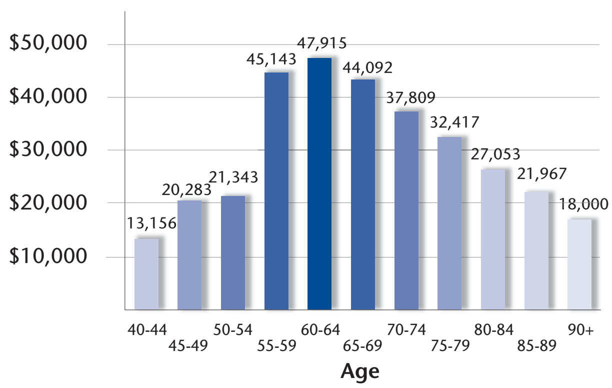
- Average **annual benefit**. . . . $39,403
- Average **age** . . . . 70.4 years
- Total benefits paid . . $2.26 billion

Our retired members, by age



This population has never been greater, with the number of older retirees continuing to grow—including 1,719 now age 90 or over.

Current average benefits by age



While the average benefit by age will vary from year to year based on the ages of new retirees, it has steadily increased over the years, as evidenced by a right-to-left reading of the bar graph.

Source: Public Employee Retirement Administration Commission's 2012 Actuarial Valuation of the Massachusetts Teachers' Retirement System, www.mass.gov/perac/teachers/2012teachersval.pdf

chers' Retirement System

ling status, where we stand

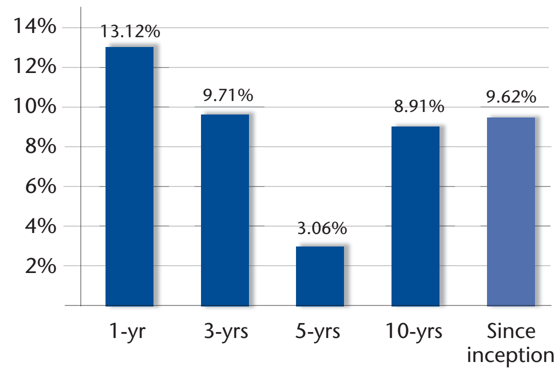
Our funding status

PRIT Fund closed 2012 with a significant gain; in the first four months of 2013, is up $1 billion, or 6.42%

Although the Pension Reserves Investment (PRIT) Fund experienced significant losses as a result of the downturn in the economy in 2008, the MTRS's assets in the Fund have since increased in value. In calendar year 2008, our system's assets in the Fund decreased by $7.3 billion, from $24.4 billion to $17.1 billion. Although the assets have not fully recovered since 2008, in 2009 through 2012, investment gains have been strong, and investments now total $22.996 billion.

The nine-member Pension Reserves Investment Management (PRIM) Board is chaired by State Treasurer and MTRS Board member Steven Grossman. Also serving on the Board and representing the interests of the teachers' retirement system are MTRS Board member Dennis Naughton and retiree Robert Brousseau, who is in his twenty-sixth year on the PRIM Board. Michael G. Trotsky, CFA is the Executive Director of the PRIM Board.

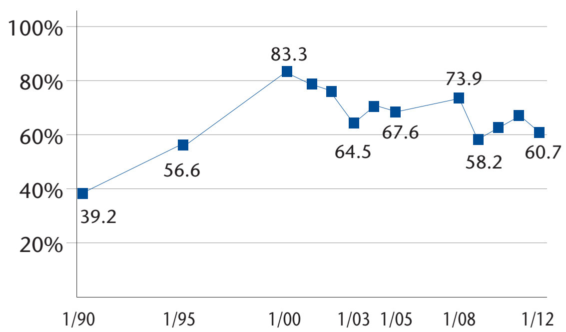
PRIT core fund performance (as of April 30, 2013)



The Legislature has set 8.25% as the pension fund's long-term rate of return target.

The system has averaged 8.91% over the past 10 years, and **9.62**% since its inception in January 1985.

The MTRS's funded ratio (as of January 1, 2012)



Over the last 22 years, the system's funding ratio has ranged from a low of 39.2% to a high of 83.3%.

After a steep decrease to 58.2% in 2009, it has risen 2.5%, to 60.7% in 2012.

Where we stand…

Plan funding (as of January 1, 2012)

- Percent **funded** 60.7%
- **Unfunded** liability . . . . $14.3 billion
- Year **fully funded** 2040

Investments (as of April 30, 2013)

The Teachers' Retirement System's assets are invested by the Pension Reserves Investment Management (PRIM) Board. As of April 30, 2013, our System's assets of $22.996 billion were invested as follows:

- Global equities 45.6%
- Private equities 11.1%
- Fixed income. 22.0%
- Real estate. 8.0%
- Timber 3.9%
- Hedge funds 9.3%
- Alternative investments. 0.1%

For more information about the PRIM Board and the PRIT Fund, visit PRIM's website at mapension.com

Important housekeeping reminders for MTRS retirees:

Please be sure to **contact us** if you…

Change your name, address (temporary or permanent) or Social Security number	For your protection, we instruct the post office not to forward many of the documents we send to retirees (these often contain confidential benefit and tax information). Accordingly, it is very important that you send us written notification of changes to your personal data so that you are sure to receive our mailings.
Lose your retirement check	In the event of loss or theft, notify us in writing no earlier than one week after the mailing date to request that we issue a replacement check. We will place a stop-payment order on the check and issue a replacement, usually within five to ten days after we receive your written notification. Note: On July 1, 2009, direct deposit became mandatory for new retirees. If you are still receiving a paper check, please consider changing to direct deposits. See our website for details and the downloadable form—it's easy!
Want to change your…	
■ federal tax withholding	Each year at tax time, review your Form 1099–R so that you know what you are paying in federal taxes. To change the amount being withheld, submit a new Substitute Form W–4P, available on our website at mass.gov/mtrs.
■ retiree beneficiary *(for non-Option C retirees only)*	Be aware of the status of your beneficiary. If you retired under Option A or B, you may change your beneficiary designation at any time by submitting a new beneficiary designation form; if your beneficiary predeceases you, you may also name a new beneficiary *(see page 8 for details)*. If you retired under Option C and your beneficiary predeceases you, please notify the MTRS because your benefit will "pop up" to the Option A amount.
Want to participate in the governance of the MTRS	Approximately three months before our Board elections (held every four years), we notify active and retired members of the upcoming nomination and election process. For your reference, our next Board election will be held in the fall of 2015.
Plan to render service to a Massachusetts public employer and exceed the time and earnings limitations	If you will work more than 960 hours or earn more than the difference between your retirement allowance and the salary being paid for the position from which you retired, (plus $15,000, if retired for more than one January-through-December period), you must notify the MTRS in writing that you wish to waive your retirement allowance for period of employment.
Become divorced and your retirement allowance is divided	If applicable, the MTRS will pay your monthly allowance per the terms of a court order or the parties' domestic relations order. Please see our booklet *What You Should Know As a Party to a Domestic Relations Order,* available on our website.
In the event of your death, your beneficiary should contact us regarding any survivor benefits	Advise your current beneficiary **now** that he or she should contact us in the event of your death. Be sure to keep your retirement papers with your other important documents.

Contact us at…

MAIN OFFICE
One Charles Park
2nd Floor
Cambridge, MA
02142-1206

617-679-MTRS (6877)
FAX 617-679-1661

WESTERN REGIONAL OFFICE
One Monarch Place
Suite 510
Springfield, MA
01144-4028

413-784-1711
FAX 413-784-1707

mass.gov/mtrs

MTRS Board clarifies the earnings limit for MTRS retirees who return to work for a Massachusetts public employer

New policy to take effect for calendar year 2014 (effective January 1, 2014)

Pursuant to G.L. c. 32, § 91(b), MTRS retirees who render service to a Massachusetts governmental unit are subject to time and earnings restrictions. In a calendar year, the retiree may not work more than 960 hours and the earnings from said service cannot exceed the difference between the salary being paid for the position from which the member retired (Salary Being Paid) and the amount of his or her pension (plus $15,000, if retired for more than one January-through-December calendar year period). *See chart, below, for a summary of these restrictions.*

If interpreted literally, § 91(b) would prevent a teacher who retires at the top of the pay scale and is replaced with a new teacher on the first step from working after retirement. Thus, the MTRS's longstanding practice is to base the Salary Being Paid for a member who retires under a collective bargaining agreement on the amount listed in the current salary schedule for the member's step and education level at retirement.

For administrators and other educators covered by individual contracts, there is no current salary schedule to rely upon since compensation amounts are negotiated individually. A literal interpretation of §91(b) for such a retiree would prevent the retiree from working after retirement if the successor is paid at a lower salary, or could result in a windfall if the successor is paid at a higher salary than the retiree would have received if he had remained in service. The Appeals Court, in *Pellegrino v. Springfield Parking Authority,*[1] interprets § 91(b) to mean that a retiree may not, by combining his pension with post-retirement earnings, make more money than he would have if he had not retired. In order to treat members who are not covered by collective bargaining agreements the same as those who are, and to be consistent with the Appeals Court, the MTRS Board has adopted a new policy,[2] effective January 1, 2014, as follows:

> When determining the Salary Being Paid for a retiree who was not covered by a collective bargaining agreement at retirement, unless the retiree provides sufficient evidence for the MTRS to reliably determine what the retiree would have earned in a year after his or her retirement, staff shall calculate the retiree's Salary Being Paid using the salary that the retiree received during his or her last year of employment, indexed each year according to the Consumer Price Index, as certified by the Commissioner of Social Security (CPI-W).

As always, if you have any questions about this new policy, please contact us at 617-679-6877.

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[1] *Pellegrino v. Springfield Parking Authority,* 69 Mass.App.Ct 94, 100 (2007).

[2] Until January 1, 2014, the Board's current policy remains in effect, which is to base the Salary Being Paid on the successor's salary if it is higher than the retiree's last salary, and, if lower, to use the retiree's last salary before retirement plus CPI.

A summary of the post-retirement employment restrictions for MTRS retirees returning to work with a Massachusetts public employer	**When NO critical shortage**	**When a critical shortage IS declared by ESE**	
	ALL MTRS Retirees	Retirees under Regular formula	Retirees under RetirementPlus
1) Time limitation: 960 hours in a calendar year.	Applies	Waived	Waived
2) Earnings limitation (for superannuation retirees)**:** On a calendar year basis, a rehired retiree's post-retirement earnings cannot exceed the difference between the current salary of the position from which the member retired, and the amount of his or her annual pension. After the member has been retired for at least one full calendar year (one full January-through-December year), this earnings limit is increased by $15,000. **Date of retirement** — **Date eligible to earn additional $15,000** 1/1/2012 – 12/31/2012 — 1/1/2014 1/1/2013 – 12/31/2013 — 1/1/2015 1/1/2014 – 12/31/2014 — 1/1/2016	Applies	Waived	Applies for first two year of member's retirement; waived thereafter
3) Separation from service: If returning to same employer from which the member retired, 60 days. *Exception:* Presently, this particular restriction does **not** apply if the member retired *either* at age 65 or older *or* at the maximum benefit amount of 80% of his or her final salary average.	Applies	Applies	Applies

What's new!

3% COLA proposed for FY2014 1

Learn what it means for you, and—if approved—when it would be paid

Pension costs nationwide—Most likely, less than you've heard 3

Get the facts on funding retirement systems across the country

Our system: A snapshot 4–5

A profile of who we are and our funding status

Option A retirees and survivors: Consider naming a designee for your month-of-death benefits 8

Help your survivors avoid paperwork and delays

Plus general reminders for all retirees, and an update on earnings limitations

MTRS
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

Main Office
One Charles Park
Cambridge, MA 02142-1206

An important reminder regarding the payment of benefits in the month of your death if you are…

- a **retiree** who retired under, or "popped up" to **Option A,** or
- a **survivor benefit recipient**

As you may know, until 2012, we did not ask you, our Option A retirees and survivor benefit recipients, to name beneficiaries because your monthly benefits cease upon death. However, since retirement payments are made at the *end* of each month *for* that month, you may have earned benefits in the month of your death (the "pro-rata amount") that were not issued to you, but that are still payable. In the absence of a beneficiary designated to receive this pro-rata amount, we pay it to the retiree's estate.

In recent years, we found that some of our retirees' survivors do not want to go through the paperwork and potential expense of obtaining a taxpayer identification number, establishing a bank account for the estate and probating the estate, and, as a result, may choose not to collect the retiree's final benefit payment (often a relatively small amount as it may represent only a few days' worth of the monthly benefit). Accordingly, please note that you may designate someone to receive the "pro-rata amount" due in the month of your death, and if you do so, we can issue payment directly to your designee(s) rather than your estate.

If you wish to name a designee, go to **mass.gov/mtrs**, download our *Beneficiary Designation Form for Retirees and Survivors,* and mail your completed form to our Cambridge office. If you do not have Internet access, call 617-679-6877 and we will be happy to send you the form.

What should I tell my family or executor to do about my MTRS benefit in the event of my death?

First, notify us by simply calling our Retiree Services unit at 617-679-6877. We will take the necessary information over the phone, and then review your records to determine what benefits may be due. Depending on the type of benefit you were receiving, we will send the appropriate benefit claim forms to your survivors for completion.

As soon as possible after we receive the completed forms, we will process any payments due to your designated beneficiary(ies).