THE COMMONWEALTH OF MASSACHUSETTS

DIVISION OF PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION
JOHN W. MCCORMACK BUILDING
ROOM 1101
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RICHARD J. STANTON
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~~JOSEPH W. JENNINGS~~
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JOHN J. McGLYNN
COMMISSIONER

M E M O R A N D U M

TO: Cambridge Retirement Board

FROM: Commissioner John J. McGlynn JJM

DATE: December 15, 1986

RE: Appropriation for Fiscal Year 1988

Maximum Required FY88
Appropriation: $10,315,669

Estimated Minimum
FY88 Appropriation: $8,969,625

As provided for in Section 22(7)(c) of Chapter 32 of the General Laws, this division is hereby furnishing you with the amount to be appropriated for the pension fund of your Retirement System for the Fiscal Year commencing July 1, 1988. As you are aware from the last two years' experience, the changes enacted by Chapter 661 of the Acts of 1983 regarding the disposition of excess income have changed the historical nature and format of the appropriation setting process.

The above heading indicates the Maximum Fiscal 1988 appropriation required for your system (i.e. the total funds which must be available through appropriations and utilized excess income) and an estimate of the minimum appropriation that might be required (i.e. assuming that your Retirement Board, chief executive officer and legislative body concur in utilizing one-third of excess income to offset the pension appropriation). This figure is merely an estimate based on our expectation of the earnings of your Retirement System in Calendar Year 1986. As you did last year, you will use actual Calendar 1986 excess income in determining the ultimate appropriation offset.

Section 13 of Chapter 661 of the Acts of 1983 amending G.L. c.32, s.22(6)(a)(3) requires excess income (the balance in the investment income account after annuity fund transfers) to be transferred to the Pension Reserve Fund. As you did last year, your Board should make this pension reserve fund transfer unless and until the appropriate votes are made to "utilize excess" as an appropriation offset.

Section 28 of Chapter 661 of the Acts of 1983 provided a phase-in for the elimination of the use of excess earnings to defray current pension obligations.

* The phase-in allowed use of 100% of Calendar 1984 excess interest to offset the Fiscal 1986 appropriation requirements.

* Two-thirds of the Calendar 1985 excess could have been utilized last year (by appropriate votes to defray Fiscal 1987 pension appropriations).

* One-third of Calendar 1986 excess may be used this year to defray Fiscal 1988 pension appropriation.

* No excess will be offset against pension appropriations beginning with Calendar 1987 excess earnings and Fiscal 1989 pension fund appropriation).

The decision to utilize excess earnings for Calendar 1986/Fiscal 1988 is one that must be authorized and directed by the retirement board, the legislative body and chief executive officer of each retirement system. To utilize excess earnings as an appropriation offset, concurrent votes of all three principals must be made. A decision by any one of the three principals (the retirement board, the legislative body or the chief executive officer) to leave the excess in the pension reserve fund will require that the excess not be utilized to offset the required appropriation.

The legislative body shall be the city council in a city.

The chief executive officer shall be the Mayor in a city or in cities with Plan D or Plan E Government, the city manager.

The final page of this memorandum indicates the pension fund need established by this Division for your Retirement system in FY1986 and FY1987, the amount of excess earnings utilized as an offset against that need, and the actual Fiscal Year pension appropriations for your system.

To highlight the Chapter 661 changes, and to assist retirement systems and municipalities in future financial planning, the summary table on the final page of this memorandum indicates current estimates of the pension fund appropriations which must be made in Fiscal 1988, 1989, 1990, 1991 and 1992. Estimates of excess earnings which may (by action of the Retirement Board, the legislative body and chief executive officer) be utilized to defray part of those pension costs in Fiscal 1988 are also indicated. The estimates of excess reflect one-third of our estimate of system's Calendar 1986 excess income. The right-hand column on the summary table for Fiscal 1988 indicates the estimated minimum annual pension appropriation assuming that the local decision is made to use all of the allowable estimated excess earnings whenever possible to defray current pension costs. The estimated minimum annual pension appropriation for Fiscal 1989 through Fiscal 1992 is equal to the estimated pension need for those years without any excess income available as an offset.

Actuarial assumptions utilized in projecting fiscal 1989 through Fiscal 1992 pension funding requirements and Calendar 1986 excess earnings were conservative. We believe, however, that they provide a useful frame of reference for understanding the direction of the retirement system's pension funding obligations, and the implementation of Chapter 661,.

In Fiscal 1988 the pension fund in your Retirement System needs to have available $10,315,669. We estimate that your system's Calendar 1986 excess earnings will be $4,038,133. If your system utilizes the allowable one-third of the estimated excess by taking the required votes, the required pension appropriation for Fiscal 1988 would be $8,969,625.

Please note that the excess earnings listed above are only estimates. Your system in providing appropriation information to member government units should utilize actual 1986 excess earnings. If your actual excess earnings in Calendar 1986 exceed the above stated estimate, the minimum pension appropriation required would be less than the $8,969,625 if one-third of such excess is used as an offset. If your actual excess earnings in Calendar 1986 are less than the above-stated estimate, even if one-third is used as an offset, the minimum pension appropriation required will be greater than the amount estimated above.

The above stated pension need, $10,315,669 is the hard figure. The Retirement board, the legislative body and chief executive officer may vote to use up to one-third of the actual 1986 excess earnings. The Fiscal 1988 appropriation for your Retirement System is the difference between the stated pension need and the sum the retirement board, legislative body and chief executive officer have authorized from actual excess earnings to be transferred to the pension fund.

A copy of the Retirement Board vote, the legislative body vote and the executive approval authorizing and directing use of up to one-third of the actual Calendar 1986 balance in the investment income account to defray the required appropriation to the pension fund must be filed with PERA. Alternately, if the excess earnings is to remain in the Pension Reserve Fund, a copy of the vote establishing that fact should be filed. Absent said filing, the Fiscal 1988 appropriation shall be the above-stated Fiscal 1988 pension need, $10,315,669.

Upon receipt of the excess earning decision made for your retirement system, PERA will provide your Board with a breakdown allocating the pension appropriation among all participating government units.

If you have any questions regarding this process, please contact PERA's Actuary, Barbara Ware, at 617/727-9380.

JJM/db
0220Q

cc: City Manager

City Council
c/o City Clerk

Cambridge Retirement System Pension Appropriation

	PENSION FUND NEED	VOTED EXCESS	ACTUAL PENSION APPROPRIATION
FY 1986	10,315,669	0	10,315,669
FY 1987	10,315,669	0	10,315,669

	PENSION FUNDING NEEDED	ESTIMATED VOTABLE EXCESS	ESTIMATED MINIMUM PENSION APPROPRIATION
FY 1988	10,315,669	1,346,044	8,969,625
FY 1989	10,315,669	N/A	10,315,669
FY 1990	10,315,669	N/A	10,315,669
FY 1991	10,315,669	N/A	10,315,669
FY 1992	10,315,669	N/A	10,315,669

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 8-690

Comm. from John J. McGlynn, Commr., Mass. Division of Public Employee Retirement Administration Re: amount to be appropriated for the pension fund of the Cambridge Retirement Board for the Fiscal Year commencing July 1, 1988.

In City Council,

December 22, 1986