



H.2620/S.1791 Actuarial Analysis Summary

Prepared by MTA Government Relations Division

Published February 1, 2022

Summary of H.2620/S.1791

H.2620/S.1791, *An Act to provide a retirement enhancement opportunity for certain members of the Massachusetts Teachers Retirement System*, was filed with the intention to provide teachers who are currently eligible to retire with a one-time opportunity to purchase supplemental pension allowance credits. The legislation provides the option to enhance pension benefits through the purchase of (a) up to five years of service or (b) up to five years of age or (c) a combination of (a) and (b) not exceeding 10 years total, e.g., three years of service and four years of age. The cost of the enhancement would be paid in full or in part by the employees, with the option open for the employer or the state contributing to the cost. Importantly, the proposal calls for the backfilling of any positions made vacant by employees participating in this option and includes a local option, meaning that localities will vote to be a part of the program if the legislation is passed.

Introduction to Mercer Analysis and Impact of IRS Regulations

In response to an analysis of teacher buyback costs under H.2620/S.1791 by the Public Employee Retirement Administration Commission, MTA hired Mercer to perform an independent actuarial analysis of the legislation and as necessary identify alternatives to the current proposal that might provide a benefit at a lesser cost. Mercer is an independent asset management company specializing in pension related issues. Mercer used PERAC's analysis of the bill as a starting point. During its analysis, Mercer identified a possible inconsistency between the filed proposal and IRS regulations. IRC Section 415 limits employee contributions to all retirement plans to no more than \$61,000 per year in 2022. Contributions required to purchase supplemental pension credits, as under this plan, would be counted toward this limit and calculated costs for purchases of multiple years of age credits would exceed this limit in most cases. However, under Section 415(n), the IRS allows a special exception to the contribution limit for a special enhancement that applies to governmental plans and allows employee-pay-all purchases of up to five years of pension service credit. Therefore, Mercer's cost calculations outlined below only calculate the cost an MTRS member might anticipate paying for the purchase of years of service credits and does not calculate the cost for the purchase of age credits. Due to these factors, the legislation should be modified to ensure compliance with IRS regulations by limiting the purchase of age credits so that the purchase remains below \$61,000 for age. The purchase of service credits, however, does not have to stay below this limit. Mercer has also confirmed that federal law allows an employee to pay some or all of the cost of their purchase using 401(k)/403(b)/IRA rollovers, which are pre-tax defined contribution plans.

Cost Illustrations for the Alternative H.2620/S.1791 Proposal

Notes on the cost illustrations: "Benefit Increase Per Year of Service" comes from the Tier 1 Retirement Percentage Chart. With every year of age, the benefit increases by 0.10 percent, i.e., at 55 years old the benefit of an additional year of service is 1.5 percent and at 56 years old the benefit of an additional year of service is 1.6 percent, all the way up to 2.5 percent at 65 years old. Calculated cost reflects a final average salary of \$100,000 and is based on valuation-based factors used by PERAC.

Current Age	Current Years of Credible Service	Benefit Increase Per Year of Service	Cost Per Year of Service
50	20	1%	\$15,000
55	10 to 30	1.5%	\$21,800
60	10 to 30	2%	\$28,000
65	20 to 25	2.5%	\$33,800

Example: An employee who is currently 60 years old with 25 years of credible service would like to purchase 5 years of enhanced service. This would:

- Increase the employee's pension allowance by 10% of FAS, from 50% to 60% if not in R+
(2% benefit increase per year purchased X 5 years = 10%)
- Increase the employee's pension allowance from 50% to 72% if in R+
(60% + 12% added R+ benefit)
- Cost the employee \$140,000.00 *
(\$28,000.00 per year purchased X 5 years = \$140,000.00)

*This cost assumes purchasing a regular year costs the same as a R+ eligible year, PERAC's analysis on this question remains unclear.

		Age at Retirement																				
		Formula	R+ % increase	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62		
Years of Service	10 Regular	—	—										15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0		
	11 Regular	—	—										16.5	17.6	18.7	19.8	20.9	22.0	23.1	24.2		
	12 Regular	—	—										18.0	19.2	20.4	21.6	22.8	24.0	25.2	26.4		
	13 Regular	—	—										19.5	20.8	22.1	23.4	24.7	26.0	27.3	28.6		
	14 Regular	—	—										21.0	22.4	23.8	25.2	26.6	28.0	29.4	30.8		
	15 Regular	—	—										22.5	24.0	25.5	27.0	28.5	30.0	31.5	33.0		
	16 Regular	—	—										24.0	25.6	27.2	28.8	30.4	32.0	33.6	35.2		
	17 Regular	—	—										25.5	27.2	28.9	30.6	32.3	34.0	35.7	37.4		
	18 Regular	—	—										27.0	28.8	30.6	32.4	34.2	36.0	37.8	39.6		
	19 Regular	—	—										28.5	30.4	32.3	34.2	36.1	38.0	39.9	41.8		
	20 Regular	—	12.0	14.0	16.0	18.0	20.0	22.0	24.0	26.0	28.0	30.0	32.0	34.0	36.0	38.0	40.0	42.0	44.0	46.0	48.0	
	21 Regular	—	12.6	14.7	16.8	18.9	21.0	23.1	25.2	27.3	29.4	31.5	33.6	35.7	37.8	39.9	42.0	44.1	46.2	48.3	50.4	
	22 Regular	—	13.2	15.4	17.6	19.8	22.0	24.2	26.4	28.6	30.8	33.0	35.2	37.4	39.6	41.8	44.0	46.2	48.4	50.6	52.8	
	23 Regular	—	13.8	16.1	18.4	20.7	23.0	25.3	27.6	29.9	32.2	34.5	36.8	39.1	41.4	43.7	46.0	48.3	50.6	52.9	55.2	
	24 Regular	—	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	38.4	40.8	43.2	45.6	48.0	50.4	52.8	55.2	57.6	
25 Regular	—	15.0	17.5	20.0	22.5	25.0	27.5	30.0	32.5	35.0	37.5	40.0	42.5	45.0	47.5	50.0	52.5	55.0	57.5	60.0		
26 Regular	—	15.6	18.2	20.8	23.4	26.0	28.6	31.2	33.8	36.4	39.0	41.6	44.2	46.8	49.4	52.0	54.6	57.2	59.8	62.4		
27 Regular	—	16.2	18.9	21.6	24.3	27.0	29.7	32.4	35.1	37.8	40.5	43.2	45.9	48.6	51.3	54.0	56.7	59.4	62.1	64.8		
28 Regular	—	16.8	22.4	25.2	28.0	30.8	33.6	36.4	39.2	42.0	44.8	47.6	50.4	53.2	56.0	58.8	61.6	64.4	67.2	70.0		
29 Regular	—	17.4	26.1	29.0	31.9	34.8	37.7	40.6	43.5	46.4	49.3	52.2	55.1	58.0	60.9	63.8	66.7	69.6	72.5	75.4		
30 Regular	—	18.0	30.0	33.0	36.0	39.0	42.0	45.0	48.0	51.0	54.0	57.0	60.0	63.0	66.0	69.0	72.0	75.0	78.0	81.0		
30 R+	12%	—	—	—	30.0	33.0	36.0	39.0	42.0	45.0	48.0	51.0	54.0	57.0	60.0	63.0	66.0	69.0	72.0	75.0		
31 Regular	—	—	—	—	34.1	37.2	40.3	43.4	46.5	49.6	52.7	55.8	58.9	62.0	65.1	68.2	71.3	74.4	77.5	80.6		
31 R+	14%	—	—	—	48.1	51.2	54.3	57.4	60.5	63.6	66.7	69.8	72.9	76.0	79.1	82.2	85.3	88.4	91.5	94.6		