AN INTRODUCTION TO THE MBTA RETIREMENT FUND AND WHERE IT FITS IN THE LANDSCAPE OF MASSACHUSETTS' PENSION SYSTEMS

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MBTA Retirement Fund

History and Background

What Is The MBTA Retirement Fund?

- **Private Trust**. The MBTA Retirement Fund ("MBTARF") is a private trust that administers to the retirement benefits of MBTA workers.

- **Composition**. The MBTARF is comprised of 10 employees who work in the following groups: Administrative, Benefits, Finance, and Info Technology, all overseen by the Interim Executive Director.
  - 7-member board – consisting of 3 union appointees, 3 management appointees, and an honorary member who votes in case of ties.
  - Service providers include Segal-Marco as its Consultant, State Street as its custodian bank, Buck as its actuary, KPMG as its auditor, and Holland & Knight as its outside legal counsel.

- **Benefits; Union**. Benefits are negotiated between Local 589 ATU and MBTA Management, and are set forth in the collective bargaining agreement and Pension Agreement. Most MBTA workers are union members, the largest being Local 589.

- **Size; AUM**. As of December 31, 2022, the MBTARF had 5,555 active members, 6,714 retirees and approximately $1.6 billion in assets.

- **Not Subject to Ch. 32**. Why is the MBTA Retirement Fund not subject to Mass. Gen. Laws ch. 32?

The Answer Is Found In The MBTARF'S History And Legal Status

- **Public Transportation In Massachusetts Was Originally Privately Owned.** In 1894 the Boston Elevated Railway Co. was established as a private company and operated America's first subway.
  - In 1903, Boston Elevated established one of the first pension plans in Massachusetts.
  - In 1911, Massachusetts created the first state employee retirement system and in 1914 Massachusetts established a state teacher retirement system.
- **The State Legislature Takes Over Public Transportation.** Public transportation was originally operated as a for-profit venture in Massachusetts. In 1947, the Legislature established the Metropolitan Transit Authority and purchased Boston Elevated.
  - The Legislature specifically declined to establish a public pension system or retirement plan for the newly acquired employees of Boston Elevated.
  - One might speculate that the Legislature did not want the Commonwealth to assume any of Boston Elevated's existing pension liability.

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MBTA RETIREMENT FUND

What The Legislature Did

- **MBTARF is a Private Trust**. In 1947, the MTA and Local 589 negotiated a contributory pension plan. The parties then established the Retirement Fund as a private trust in 1948 to implement this pension plan.
  - The Trust holds the pension assets for the exclusive benefit of its members and beneficiaries.
  - The parties also established Rules and Regulations of the Retirement Fund, which covered the overall administration of the retirement plan, until they were replaced by a Pension Agreement in 1970.
- **MBTARF is Exempt from Ch. 32 and ERISA**.
  - In 1964, the Legislature integrated the MTA with the suburban train systems to create a single public transit system: the Massachusetts Bay Transportation Authority or MBTA.
  - When creating the MBTA, the legislature specifically chose not to add the MBTARF to the Ch. 32 public pension system.
  - Per an SJC decision after creation of the MBTA, the MBTARF was recognized as exempt from ERISA and determined not to be subject to Ch. 32.
- **MBTARF is Not a State Agency**. Per subsequent SJC decisions:
  - The MBTARF is not a Massachusetts "State Agency"
  - MBTARF employees are not "state employees."

What Does It Mean For The MBTARF To Be Private?

- **No Oversight By PERAC.** As a private trust, the MBTARF is not subject to PERAC oversight.

- **Fiduciary Duties**. State and common laws govern fiduciary duties applicable to the MBTARF.
    - Duty of loyalty to the members and beneficiaries of the Retirement Fund.
    - Carry out their duties prudently.
    - As part of carrying out their duties prudently, the board and management look to PERAC regulations and ERISA law for "best practice" guidance in the administration and management of pension plans.

- **Public Records Law**.
    - In 1993, the Supreme Judicial Court held that the MBTARF is not subject to the Public Records Law.
    - However, beginning as of January 1, 2017, following passage of Chapter 121 of the Acts of 2016, the MBTARF Board has authorized and directed MBTARF management to voluntarily comply with the Public Records Law.
    - The MBTARF posts its Annual Comprehensive Financial Report as well as its Board meeting minutes on its website.

Does Private Trust Status Impact Investments With PRIT?

- **Ability to Invest in PRIT**.
  - MBTARF was historically unable to invest in the PRIT Fund.
  - On July 17, 2017, Ch. 32, §1 was amended to add the MBTARF to the definition of "System" for the limited "purpose of investing in the Pension Reserves Investment Trust Fund."
  - In order to invest in PRIT, the Pension Agreement and Trust Agreement had to be amended, and the Investment Policy Statement and Fiduciary Standards had to be revised.
- **Investing in PRIT**. Between 2019 and 2022, the MBTARF committed more than $177,500,000 to investments in the PRIT Fund.
  - To meet fiduciary duties, the Board must consider each PRIT investment in comparison with other investment managers.
    - The Board must then determine if the PRIT investment is the most appropriate investment.
    - The MBTARF Board does not meet its fiduciary duties merely by selecting PRIT.
  - The new Pension Agreement directs the MBTARF to invest at least 50% of its assets in the PRIT Fund, which requires the Board to weigh this mandate with its fiduciary duties.

MBTA Retirement Fund

Planning For Goals

The MBTARF's Mission

- **Shared Characteristics with Ch. 32**.
  - The MBTARF shares many of the same characteristics as a Ch. 32 retirement system.
  - The MBTARF shares the same goals as a Ch. 32 system, including:
    - Providing secure retirements for public workers; and
    - Delivering efficient and helpful customer service to its members and beneficiaries.
- **MBTARF's Mission**. As stated on the MBTARF's website:
  - Our mission then, as now, is to provide retirement benefits for our members – the transit workers and other employees of the MBTA. To ensure that the pensions earned by active and retired members, and their beneficiaries, remain secure, we are dedicated to managing a strong and diversified investment program.

Challenges Faced By A Private Trust, Which Benefits Public Employees, When Implementing Its Mission

- **Balancing Obligations**. The MBTARF must balance public demands for transparency against private duties of confidentiality to its beneficiaries and investors.

- **Tax Dollars Help to Fund the MBTARF**.
  - Under the Pension Agreement the MBTA makes contributions on behalf of MBTA employees.
  - Taxpaying public is interested in MBTARF operations and performance.

- **Operating in a Constantly Changing Environment**. The MBTARF operates in a constantly changing environment:
  - Must implement what is collectively bargained for under the private Pension Agreement.
  - No sovereign immunity or other statutory protections exist; decisions guided by fiduciary duty law.
  - Requirements of any board to meet its fiduciary duties is always evolving.
  - The MBTARF has been the subject of legislative and media inquiry because it is an entity that invests money sourced through the public.

Meeting The Mission: PERAC Meetings And Ch. 32 Outreach

- **PERAC Meetings**. Beginning in 2010, MBTARF management met with PERAC staff as part of its fiduciary duty compliance efforts, and to help it meet its mission and implement its goals.
  - MBTARF sought PERAC's deep experience in pension system oversight and the promulgation of regulations which ensure investment security.
  - Discussions during these informal, regular meetings with PERAC staff have focused on best practice standards for retirement funds.

- **Outreach to Ch. 32 Systems**. The MBTARF also connected with Ch. 32 pension funds and other public employee retirement funds outside of Massachusetts to share best practices and peer reviews on various topics, including:
  - The MBTARF changed mortality vendors, resulting in cost savings and better service, utilizing input received from peers.
  - The MBTARF obtained feedback on pension benefit software providers to assist with its own diligence when it upgraded its pension benefit software.
  - The MBTARF obtained valuable advice from IT professionals at PERAC and from Ch. 32 Funds when it migrated its data to the cloud.

MBTARF Recognized The Benefits Of Strategic Planning

- **Strategic Planning Goals**. The MBTARF's Strategic Planning goals and initiatives have progressed over the course of two strategic planning cycles between 2015-2019 and 2020-2023.
  - Each Strategic Plan, both of which were approved by the MBTARF's Board, has focused on improving benefit administration, operations, investments, and financial reporting.
  - During the implementation phase of each plan, the MBTARF again sought input from third parties such as its auditors, service providers, PERAC, and Ch. 32 retirement systems.
- **Development of Next Strategic Plan**. A third strategic plan (2024-2027) is already being developed by management in conjunction with outside advisors
- **Practice Examples**. The following 4 slides provide examples of what this means in practice.

2015-2019 Strategic Plan: Improve Financial Reporting, Accountability, And Transparency

- **Improving Transparency**.
  - Produce and post Open-Meeting Board minutes on its website.
  - Comply voluntarily with the amended Public Records Law notwithstanding the MBTARF's private status as determined by the SJC.
  - Post the following on its public facing website: Interim-Executive Director's Annual Board Reports, Interim-Executive Director's Mid-Year Board Reports, Strategic Plan Progress Reports, as well as other financial and operational information.

- **Improving Financial Reporting**.
  - The MBTARF resolved to produce an annual comprehensive financial report (ACFR), which it posts on its website. An ACFR provides transparent, detailed financial information to help the reader properly understand the basic statements.
  - The Government Finance Officers Association (GFOA) has since awarded the MBTARF its Certificate of Achievement for Excellence in Financial Reporting for the MBTARF's ACRF every year since 2016.
  - The ACFR for each fiscal year is posted on the MBTARF's website.

2015-2019 Strategic Plan: Adopt Fiduciary And Governance "Best Practices"

- **Fiduciary Standards**. The MBTARF Board adopted written Fiduciary Standards.

- **Fiduciary Training – Board**. The MBTARF conducts annual Fiduciary Training for its Board members that:
  - Utilize comparative fiduciary frameworks including those applicable to Ch. 32 and ERISA governed pension funds.
  - Is designed to educate Board members about their duties of undivided loyalty, accountability and prudent investment.
  - Emphasizes the importance of the Board following the MBTARF's adopted Fiduciary Standards and its Investment Policy Statement.

- **Training – Staff**. The MBTARF Board and Management also provide training to MBTARF staff that focuses on MBTARF staff ethical obligations and their individual responsibilities under the Standards of Fiduciary Responsibility.

- **Investment Policy Statement**. The MBTARF developed, and the Board approved, a comprehensive Investment Policy Statement.

2020-2023 Strategic Plan: Cultivate A Sophisticated, Professional, Risk Intelligent Organization Dedicated To Customer Service

- **Development of Strategic Initiatives**. The MBTARF developed, among others, the following strategic initiative: "Evaluate the organizational chart and job descriptions to assure that roles match ever-evolving business responsibilities and service needs."

- **Obtained Staff Feedback**. Through interviews and department meetings, MBTARF management obtained and utilized feedback from its staff to update job descriptions, promote "buy in," and encourage cross-departmental cooperation.

- **Obtained Ch. 32 & PERAC Feedback**. The MBTARF interviewed peer and aspirational Ch. 32 pension funds to obtain "best practice" feedback concerning organizational structure and job responsibilities.

- **Utilized Feedback**.
  - Utilized feedback to create a new organizational chart and update job descriptions to better align resources with evolving needs.
  - Reconfigured roles also produced significant savings due to the combination of various positions.

- **Conducted Operational Review**. Outside consultant conducted an operational assessment of the MBTARF's reorganized structure, organizational chart and job functions which was presented to the MBTARF's Board in February 2021.

2020-2023 Strategic Plan: Become More Efficient In Pension Benefit Administration

- **Strategic Initiative**. Another MBTARF strategic initiative directed the MBTARF to: "Adopt a program of assessments and audits to evaluate internal controls, policies, performance and risk, and develop improvements and enhancements to the Retirement Fund's policies and procedures."
  - To achieve this goal the MBTARF embarked on a program to develop a set of written Standard Operating Procedures (SOPs) for the Benefits Department.
  - SOPs assure consistent and fair treatment of members; assist in staff training; and reduce internal errors.
- **Drafted by Staff SMEs**. MBTARF staff subject matter experts ("SME's") drafted sections of the SOPs corresponding to their substantive expertise.
- **Obtained Ch. 32 & PERAC Feedback**. MBTARF obtained feedback from comparable and aspirational Ch.32 Funds and PERAC, which was used to finalize a full written set of SOPs.
- **Conducted Operational Review**. The SOPs were then reviewed for operational effectiveness.
  - Phil Brown conducted an operational assessment of the Benefits Department
  - Former PERAC Executive Director, Joe Connarton, reviewed the development and implementation of the SOPs based on a comparative analysis with Chapter 32.

MBTA Retirement Fund

Benefits Structure and Comparison to Ch. 32 Benefits

How Do MBTARF Pensions Compare? – 2022 Arbitration Award

- **Overview**. The MBTARF pensions are negotiated between the union and the MBTA and take into account that MBTA workers, unlike Massachusetts public employees, contribute to and receive social security.

- **Arbitration**. The Pension Agreement was recently up for renegotiation. When the parties were unable to reach agreement, they submitted the disputed issues to arbitration, and an Arbitrator made a ruling neither party considered satisfactory.

  - The Arbitration Award was issued on August 26, 2022. Both parties found it unworkable because the Award provided that:

    "Every Member that receives a pension before age 65 will have that pension reduced for their entire retirement by 6% per year, or one-half percent for each month, of retirement before age 65. This change is to be applied prospectively for all Active Members under 60 years of age and more than five years of service from retirement as of August 26, 2022."

  - This finding had the unintended consequence of unsettling the current employees and making MBTA hiring even more difficult.

  - Other parts of the Award were expensive, roughly costing $6.6M a year/ $26.5M in retroactive payments.

What Did The Parties Do In Response to the Award?

- **The Parties Agreed To Vacate the Arbitration Award.** Placing implementation of the Award on hold, the parties returned to the bargaining table and negotiated a new Two-Tier Pension Benefit Structure consisting of (i) the Group A Plan, and (ii) the Group B Plan.

- **Group A Plan Membership**. MBTA employees who are or become Members of the Fund on or before June 30, 2023, are automatically in the Group A Plan unless they elect to be in the Group B Plan.

- **Group B Plan Membership**.
  - **Automatic Membership**. MBTA employees who are or become Members of the Fund on or after July 1, 2023, are automatically in the Group B Plan.
  - **Electing to Join Group B**. Members in the Group A Plan may elect to join the Group B Plan. For a Group A Plan Member to join the Group B Plan, the Member must meet the following conditions:
    1. The Member must elect to join the Group B Plan by providing written notification to the Fund between June 30, 2023, and December 31, 2023, by completing the Group B Plan Election Form on the Fund's website or by mailing the Form to the MBTARF (which must be postmarked by 12/31/2023); and
    2. The Member must accumulate at least 24 months of creditable service <u>after</u> such election.
  - **Transferring to Group A**. A Member in the Group B Plan may not transfer (or transfer back) to the Group A Plan.

Group A Plan Retirement Benefits (Non-Disability And Non-Vesting)

- **Retirement Eligibility**. Unless otherwise subject to retirement benefits under the Group B Plan:
  - **Normal Retirement**. A Member can retire at age 65 or older on a Normal Retirement.
  - **Early Normal Retirement**.
    - Members hired before December 6, 2012: Available with 23 years of creditable service.
    - Members hired on or after December 6, 2012, who became Members of the Fund on or before June 30, 2023: Available if Member is age 55 or older and has at least 25 years of creditable service.
  - **Early Reduced Retirement**.
    - Member of the Fund on or before June 30, 2023, age 55 or over, and at least 20 years of creditable service.
    - Reduced by ½ of 1% for each month between the age at retirement and age 65.
- **Calculation of Pension Benefits**. Except as provided above, a Member's retirement allowance is calculated using the following formula:
  - the average of the Member's highest 3 years of pensionable earnings;
  - multiplied by 2.46%;
  - multiplied by the Member's years and months of creditable service.
- **Maximum Retirement Benefit**. A Retired Member's retirement allowance cannot exceed 80% of the average of the Retired Member's highest 3 years of pensionable earnings.

Group B Plan Retirement Benefits (Non-Disability And Non-Vesting)

- **Retirement Eligibility**. A Member with at least 10 years of creditable service who has also reached the age of 55 is eligible to retire.

- **Calculation of Pension Benefits**. A Member's retirement allowance is calculated using the following formula:
  - the average of the Member's highest 3 years of pensionable earnings;
  - *multiplied by* the Age Multiplier, which is determined using the following table:

Age at Retirement	Percentage
61 or over	2.46%
60	2.375%
59	2.25%
58	2.125%
57	2.0%
56	1.875%
55	1.75%

  - *multiplied by* the Member's years and months of creditable service.

- **Maximum Retirement Benefit**. Retirement allowance cannot exceed 80% of the average of the Retired Member's highest 3 years of pensionable earnings.

Retirement Calculation Example (Non-Disability And Non-Vesting)

Seth, aged 53, became a Member in Jan. 2015 at age 45. His 3 Year Average (3YA) will be $80,000 when he retires.

- **Calculation Under MBTARF Group A Plan**:
  Eligible when he accrues 25 years of creditable service and is at least age 55.
  He currently has 8 years, retirement eligible Jan. 2040.
  - **Seth's pension will be $49,200 annually/ $4,100 monthly**

- **Calculation Under MBTARF Group B Plan**:
  Eligible when he accrues at least 10 years of creditable service and is at least 55 years of age.
  He currently has 8 years and will be retirement eligible at age 55 (after completing 2 more years of creditable service), with a reduced Group B Age Multiplier of 1.75%.
  - **Seth's pension will be $14,000 annually/ $1,166.67 monthly**
  _____
  If he retires 6 years later at age 61, his pension will be calculated using the maximum Group B Age Multiplier, 2.46%.
  - **Seth's pension will be $31,488 annually/ $2,624 monthly**

- **Calculation Under Ch. 32**:
  Seth became a member in 2015, so he is considered a "post 4/2/12 member." Seth is eligible for retirement when he accrues 10 years of creditable service and is at least age 60. "Post 4/2/12 members" use a 5-year average salary. Assuming 4% pay raises each year, his 5YA would be approximately $77,000. He currently has 8 years of service and will be retirement eligible Jan. 2030 when he will have 15 years of creditable service.
  - **Seth's pension will be $16,750 annually/ $1,396 monthly**
  _____
  If he retires 7 years later at age 67, his pension will be calculated using the maximum Group 1 Age Multiplier, 2.5%.
  - **Seth's pension will be $42,350 annually/ $3,529 monthly**

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Retirement Calculation Example: Early Normal Retirement

Frank joined the Fund in July of 2002 at 25 years of age. Next month he will qualify for an Early Normal Retirement at 23 years of Creditable Service in Group A. His 3 year average (3YA) is $90,000.

- **Calculation Under MBTARF Group A Plan**:

  Frank will have 23 years of creditable service in July 2025 at 48 years old. In July 2025, eligible for Early Normal Retirement with 23 years of creditable service:
  - **Frank's pension will be $50,922 annually/ $4,243.50 monthly**

- **Calculation Under MBTARF Group B Plan**:

  If Frank joins the Group B plan and accumulates two more years of creditable service, he will have 25 years of creditable service in July of 2025.
  - Will not qualify for a retirement until he is 55 years old in 2032.
  - Could leave the MBTA and defer his retirement, would not receive maximum retirement until 2042 (when 65).
  - Could receive a reduced vested retirement allowance prior to the age of 65 but with a 6% per year reduction, as further discussed in the next two slides.

- **Calculation Under Ch. 32**:

  Frank became a member in 2002, so he is considered a "pre-4/2/12 member." "Pre-4/2/12 members" can retire early with 20 years of creditable service. He was eligible to retire in July 2022 at age 45:
  - **Frank's pension will be $9,000 annually/ $750 monthly**

  In July 2025, Frank's benefit would be as follows:
  - **Frank's pension will be $16,560 annually / $1,380 monthly**

- **"Post-4/2/12 Members"**:

  The provision of Chapter 32 that provides for retirement with 20 years of service is not available to "Post 4/2/12 members."

  Because Frank is 48 years old, he will not qualify for a retirement until he is 60 years old in July 2037.
  - Could leave Ch 32 plan and defer, would not receive his maximum retirement until he was 67 years of age in 2044.
  - Could receive a reduced vested retirement allowance prior to the age of 65 but with a 6% per year reduction.

Vested Retirement Benefits

- **Eligibility Requirements for Vesting Under Group A**.
  - Member who has at least 10 years of creditable service;
  - Has not received a return of contributions; and
  - Member's employment with the Authority ended through no fault of their own.
- **Vesting Retirement Benefit Under Group A**.
  - Receives retirement benefit the first of the month following or coincident with vested Member's 65th birthday.
  - Retirement allowance is calculated as follows: 50 percent of Normal Retirement Allowance (see Slide No. 21) if the Member has completed 10 years of Creditable Service up to the time such Member's employment terminates plus 5 percent of Normal Retirement Allowance for each additional year of creditable service up to 20 years total service.
- **Eligibility Requirements for Vesting Under Group B**.
  - Member has accrued 10 or more years of creditable service;
  - Member's service with the Authority was terminated for any reason prior to such Member becoming eligible for another retirement allowance; and
  - Member has not received a return of contributions.
- **Vesting Retirement Benefit Under Group B**. Calculated using the following formula:
  - the average of the Member's highest 3 years of pensionable earnings;
  - multiplied by 2.46%;
  - multiplied by the Member's years and months of creditable service.
  - If retiring prior to the age of 65, vested Member's retirement allowance will be reduced, for such Member's entire retirement, by 6% per year, or ½ of 1% for each month, of retirement before age 65.

Retirement Calculation Example: Vested Retirement Deferred Vested Retirement

Phyllis joined the Fund in July 2015 at age 43. Her 3 Year Average (3YA) will be $76,000 when she retires.

- **Calculation Under MBTARF Group A Plan**:
  Phyllis will be 65 years of age in Nov. 2036 and will qualify for a Normal Retirement because of her age 65.
  - **Phyillis' pension will be $39,884.80 annually/ $3,323.73 monthly**
- **Calculation Under MBTARF Group B Plan**:
  Phyllis will be 54 years of age in Nov. 2025 and will have completed 10 years of creditable service. Since she is under 55 years of age, she has the option to **defer** her vested retirement until she reaches age 65. If she defers, her multiplier will be the maximum Group B Age Multiplier 2.46%.
  - **Phyillis' pension will be $19,319.20 annually/ $1,609.93 monthly**

- Calculation Under Ch. 32 – "Post-4/2/12 members":
  Phyllis became a member in 2015, so she is considered a "post-4/2/12 member who is eligible for a deferred vested benefit if she voluntarily terminate service with at least 10 years of service. She may collect the benefit at the "minimum age" for her job group (60 for Group 1 members). Phyllis will have completed 10 years of service in July 2025 at age 54. She can defer her retirement until age 60. Her benefit is based on a 5-year average salary. Her 5YA (with 4% annual raises) would be approximately $73,000.
  - **Phyillis' pension will be $10,600 annually/ $883 monthly**
- Calculation Under Ch. 32 – "Pre-4/2/12 Members":
  "Pre-4/2/12 members" are eligible for a deferred vested benefit if they voluntarily terminate service with at least 10 years of service. Can begin to collect benefits at age 55 or later. The deferred vested benefit for a "pre-4/2/12 member is based on a 3-year average. If Phyllis were a "pre-4/2/12 member:
  - **Phyillis' pension will be $11,400 annually / $950 monthly**

Retirement Calculation Example: Vested Retirement Benefit Layoff/ Immediate

Amelia joined the Fund in July 2015 at age 43. She will be laid-off in November 2026. Her 3 Year Average (3YA) will be $80,000 when she retires.

- **Calculation Under MBTARF Group A Plan**:
  Amelia will be 55 years of age in Nov. 2026. She will have to wait 10 years until age 65 in order to collect a pension that roughly equals 15.33% of her 3YA.
  - **Amelia's pension will be $12,264 annually/ $1,022 monthly**
- **Calculation Under MBTARF Group B Plan**:
  Amelia will be 55 years of age in Nov. 2026 and will have completed approximately 12 years of creditable service. Since she is 55 years of age, she would not be eligible for a vested retirement allowance and would be required to take a standard retirement using the formula set out in Slide No. 22 and the Age Multiplier
  - **Amelia's pension will be $16,800 annually/ $1,400 monthly**

- Calculation Under Ch. 32 - "Pre-4/2/12 Members":
  "Pre-4/2/12 Members" laid off are eligible for Termination Allowance benefits under Section 10(2) if they have at least 20 years of service, which is the sum of a pension portion equal to 1/3 of highest 3-year average salary and an annuity portion (based on retirement age and member contributions). If Amelia were a "pre-4/2/12 member with 20 years of service upon lay off, her benefit would be:
  - **Amelia's pension will be $37,167 annually / $3,097 monthly**
- Calculation Under Ch. 32 - "Post-4/2/12 Members":
  Termination Allowances are not available to "Post 4/2/12 members". The benefit available for "post-4/2/12 members" who are laid off are the same as the deferred vested benefits discussed on Slide 26. Amelia became a member in 2015, so she is considered a "post 4/2/12 member." If laid off at 55, then she is eligible to begin to collect a benefit at age 60. Her benefit would be based on a 5-year average salary of approximately $77,000.
  - **Amelia's pension will be $12,750 annually / $1,063 monthly**

Disability Retirement Allowance

- **Eligibility for Disability Retirement Allowance**. For both plans:
  - 4 years of creditable required for an occupational disability
  - 6 years of creditable service required for a non-occupational disability.
- **Calculation of Disability Benefit Allowance**.
  - **Minimum Benefit**. For both plans, disability retirement allowance is a minimum of 15% of the average of the Member's highest 3 years of pensionable earnings.
  - **Group A Plan**. A disability retirement allowance under the Group A Plan is calculated using the following formula:
    - the average of the Member's highest 3 years of pensionable earnings;
    - *multiplied by* 2.46%;
    - *multiplied by* the Member's years and months of creditable service.
  - **Group B Plan**. A disability retirement allowance under the Group B Plan is calculated using the following formula:
    - the average of the Member's highest 3 years of pensionable earnings;
    - *multiplied by* the Age Multiplier, which is determined using the following table; provided, however, that the Age Multiplier is based on the Member retiring at the age of 55 or the Member's age at the time of disability retirement if the Member is over the age of 55;
    - *multiplied by* the Member's years and months of creditable service.

Age at Retirement	Percentage
61 or over	2.46%
60	2.375%
59	2.25%
58	2.125%
57	2.0%
56	1.875%
55	1.75%

Retirement Calculation Example: Disability Retirement Allowance

Lance joined the Fund in August 2008 at aged 27. His 3 Year Average (3YA) will be $88,000 when he retires. If he were to become injured in the future, his November 2027 calculation would be calculated as follows:

- **Calculation Under MBTARF Group A Plan**:
  Lance will have 19.25 years of creditable service in Nov. 2027.
  - **Lance's pension will be $41,672 annually/ $3,472 monthly**

- **Calculation Under MBTARF Group B Plan**:
  Lance will have 19.25 years of creditable service in Nov. 2027 and will be 46 years of age. Since he is younger than 55, he will receive the reduced age multiplier as if he were 55 years of age.
  - **Lance's Pension will be $29,645 annually/ $2,470 monthly**

- **Calculation Under Ch. 32**:
  Chapter 32 has 2 different disability benefits, Accidental (occupational) and Ordinary (non-occupational) that are vastly different. Accidental Disability benefits are set out in this example. The benefit formula is the same for "pre-4/2/12 members" and "post-4/2/12 members" and is the sum of a pension portion equal to 72% of the last year salary and an annuity portion (based on retirement age and member contributions). This sum is limited to 75% of the last year salary for those who become members on or after January 1, 1988. For those with a 3-year average salary of $88,000, the last year salary would be approximately $91,500.
  - **Lance's Pension will be $68,625 annually / $5,719 monthly**

MBTA Retirement Fund

The Challenge Of Responding To Commentary

As A *Private* Fund Whose Beneficiaries Are *Public* MBTA Workers, The MBTARF Has Often Been A Focus Of Media Commentary

- **The Issue**. Over the years, the MBTARF has been subject to media commentary. This commentary has focused, in part, on:
  - A perceived lack of transparency;
  - Reportedly inadequate funding levels; and
  - Allegedly insufficient investment performance reporting.

- **Why This Commentary?**
  - Because the MBTARF is a private trust, it is required to protect members' privacy per the terms of the Trust Agreement, not public pension laws;
  - Like PRIM and other fund managers, the MBTARF is often required to enter into agreements with investment managers to protect a third party's confidential and proprietary information; and
  - A public misperception may exist concerning what the MBTARF controls. For example, the MBTARF is a manager of pension assets. The MBTARF has no control over, or input into, how much MBTA employees contribute, which is negotiated in the Pension Agreement. Nor does the MBTARF have any control over the size of the MBTA workforce or, consequently, the size of its membership (e.g. downsizing the number of MBTA employees leads to lower employee contributions).

A Sample Of The Media Commentary On The MBTARF

Gov: I can't 'compel' MBTA to release secret pension data – April 12, 2013, Boston Herald, Richard Weir et.al.: "The debate follows a Herald review that found taxpayers footing more and more of the bill for the secret pension fund."

Bill would open T pension books – Taxpayers may see retirees' $ – June 30, 2013, Boston Herald, Chris Cassidy: "All eyes are on the State House conference committee that could finally lift the veil on the MBTA's secret pension system, giving taxpayers access to information on T retirees' payouts."

COMMENTARY – Shine a light upon MBTA pension fund – April 23, 2016, Berkshire Eagle, Mary Connaughton: "While other public pension funds routinely make actuarial reports public, the MBTARF does not… Interim financial reports, board meeting minutes and investment performance updates should routinely be part of the public record…"

T retirement panel eyes law challenge – Stalls release of pension data – August 8, 2013, Boston Herald, Richard Weir and Matt Stout: "The super-secret MBTA retirement board is mulling a challenge to a new state legislation forcing it to disclose T employees' pension data to the public – even as the state's transportation czar called on the panel to stop dawdling and obey the law."

How MBTA retirement fund stayed secret for decades – April 14, 2013, Boston Herald: "The MBTA's pension system is one of the few public systems in the state whose records are secret – despite years of investigations by lawmakers, law enforcement and the media."

OUTSIDE FIRM to probe T's PENSION FUND – December 16, 2015, Boston Herald, Matt Stout: "The long-secretive MBTA Retirement Fund has tapped an outside firm to do an 'independent review' of all of its assets, investment returns and other crucial measures over a three year span, as scrutiny grows on the fund's finances."

How The MBTARF Responded

- **Management Defined the Issue**.
  - MBTARF management recognized that an underlying theme of the commentary was a perceived lack of transparency.
  - The MBTARF analyzed ways it could improve transparency and public accountability while protecting its membership's privacy and, thereby, meet its fiduciary duties to the members and beneficiaries.
- **Management Took Action.**
  - With Board approval, the MBTARF made the business decision to publicly disclose more institutional information, reasoning that the information was both accurate and benign, which demonstrated that the MBTARF had nothing to hide from an inquiring public.
- **Actions Taken.**
  - **CTHRU**. With authorization from the Pension Agreement, the MBTARF now supplies detailed benefit information to the MBTA for inclusion in "Open Checkbook" n/k/a CTHRU.
  - **Instituted Fiduciary Training.** As previously discussed, the MBTARF adopted fiduciary standards, and conducts annual fiduciary training for the Board and in-service training for staff.
  - **Engaged in Strategic Planning.** As previously discussed, careful planning was initiated and completed (2015-2019, 2020-2023) with more self-improvement to come (2025-2027).
  - **Public Record Law Compliance**. As previously discussed, the MBTARF complies voluntarily.

The MBTARF Determined To Use Its Website As Its Conduit To The Public And Its Membership

- **MBTARF Website**. The MBTARF updated its website and regularly posts updates. On the website are:
  - Annual Comprehensive Financial Reports;
  - Audit Reports;
  - Asset Allocation Reports;
  - Other Fund Reports, e.g. Operational reviews, Strategic Plans, Progress Reports, the Investment Policy Statement, etc.
  - The Interim-Executive Director's Mid-Year and Annual Board Reports;
  - Board Meeting Minutes;
  - *Milestones* newsletters sent to membership;
  - Video Webinars;
  - Records Request portal so anyone can submit a records request;
  - Member portal.

The MBTARF Made The Decision To Ask Other Funds And PERAC To Share Their "Best Practices"

- **What Is Best Practice Sharing?** In simple terms Best Practice Sharing is seeking input from outside sources for advice and peer review, while being willing to share information in exchange.

- **How Does It Work?** In addition to the earlier examples related to the MBTARF's Strategic Planning, Staff Reorganization, and creation of Standard Operating Procedures, the following two examples stand out.

Example One: Selection Of A Mortality Vendor

- **The Issue**. The MBTARF's then mortality vendor failed to notify the Fund of the death of a retiree who continued to receive benefits for over six years following the retiree's death.

- **How Best Practices Sharing Helped the MBTARF**.
  - The MBTARF consulted with PERAC and several Chapter 32 Systems for referrals to reliable vendors.
  - Based upon these referrals, the MBTARF was ultimately was able to engage Pension Benefit Information (PBI) to provide enhanced mortality verification services.
  - As a result, mortality reporting information has improved dramatically reducing the likelihood of costly and embarrassing post-mortem payments and increasing efficiency and accuracy for staff administration.

Example Two: Improvements In Financial Technology

- **The Issue**. The MBTARF was dissatisfied with its then-current pension benefit software provider and its existing on-premise pension benefit software was at the end of its useful life.

- **How Best Practice Sharing Helped**.
  - The MBTARF sought input from both PERAC and the Middlesex Retirement System on software providers and migrating to a cloud-based hosting. This included discussions about functionality, expected challenges, and anticipated levels of service from the provider.
  - Using this input as part of its due diligence process, the MBTARF ultimately engaged Pension Technology Group (PTG) in January 2018 to provide the MBTARF's pension benefit software.
  - The MBTARF also successfully migrated to a cloud-based hosting, which has improved security, efficiency, and member access to their data.

Questions?