



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued January 6, 2021

Massachusetts State Retirement Board

For the period July 1, 2017 through June 30, 2019





Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

January 6, 2021

Nicola Favorito, Esq., Deputy Treasurer / Executive Director
Massachusetts State Retirement Board
One Winter Street, Eighth Floor
Boston, MA 02108

Dear Mr. Favorito:

I am pleased to provide this performance audit of the Massachusetts State Retirement Board. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2017 through June 30, 2019. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts State Retirement Board for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Deborah B. Goldberg, Chair, Massachusetts State Retirement Board
John W. Parsons, Esq., Executive Director, Public Employee Retirement Administration Commission

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LIST OF ABBREVIATIONS

BVF	Benefit Verification Form
CMR	Code of Massachusetts Regulations
MARIS	Massachusetts Retirement Information System
MSERS	Massachusetts State Employees' Retirement System
MSRB	Massachusetts State Retirement Board
MTAERS	Massachusetts Turnpike Authority Employees' Retirement System
OSA	Office of the State Auditor
PERAC	Public Employee Retirement Administration Commission
PRIT	Pension Reserves Investment Trust

EXECUTIVE SUMMARY

The Massachusetts State Employees' Retirement System (MSERS), one of the Commonwealth's 104 contributory retirement systems, provides retirement, disability, survivor, and death benefits to state employees, employees of certain other public entities, and their beneficiaries. MSERS is administered by the Massachusetts State Retirement Board (MSRB) and operates under the purview of the Office of the State Treasurer and Receiver General. In fiscal year 2019, MSRB issued more than \$2.3 billion in benefit payments to more than 64,000 retirees and survivors.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of MSRB for the period July 1, 2017 through June 30, 2019. The purpose of our audit was to determine whether MSRB ensured that members received their first pension payments within the timeframe established by Section 13(1)(b) of Chapter 32 of the General Laws.

We also followed up on issues regarding MSRB's benefit eligibility verification procedures, identified in our previous audit (No. 2015-0088-3S), to determine what measures, if any, MSRB's management had taken to address them. Specifically, in our prior audit, we found that because of a breakdown in communication with one of its contractors, MSRB received out-of-date information on death dates of pensioners and designated beneficiaries. This resulted in continued payments to some pensioners who had died, as well as unadjusted payments to pensioners whose payments should have increased after their beneficiaries' deaths. During our current audit, we found that MSRB had implemented controls, including more frequent death-match analyses, to facilitate communication with external parties regarding matters affecting its operations and ensure that it had access to the most current death data.

In our prior audit, we also found that MSRB could not provide documentation that it conducted an audit of at least 5% of the Benefit Verification Forms (BVF) it received from its members every two years as part of its benefit verification procedures. During our current audit, we found that MSRB had not taken measures to address this issue fully.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 12	MSRB did not always make initial benefit payments within the mandated timeframe.
Recommendations Page 13	<ol style="list-style-type: none">1. MSRB should send Salary Request and Release Forms to employing agencies upon receipt of retirement applications or within two weeks thereafter.2. For applications whose processing is delayed, MSRB should notify applicants, indicate reasons for delays, and outline required remedial action.
Finding 2 Page 16	MSRB did not verify the accuracy of randomly sampled BVFs.
Recommendations Page 18	<ol style="list-style-type: none">1. MSRB should perform random reviews and verifications of biennial BVFs received to determine the accuracy of information reported and stored in its database, as currently required by Public Employee Retirement Administration Commission (PERAC) regulations.2. MSRB should collaborate with PERAC to evaluate the benefit (if any) derived from conducting the biennial verification process, given its current death match process.

OVERVIEW OF AUDITED ENTITY

Background

The Massachusetts State Retirement Board (MSRB), established by Chapter 532 of the Acts of 1911, is responsible for administering the Massachusetts State Employees' Retirement System (MSERS), one of 104 public contributory retirement systems in the Commonwealth. MSRB administers MSERS for state employees, the former Massachusetts Turnpike Authority Employees' Retirement System (MTAERS), and benefits for employees of the state's judiciary branch. All the systems, though they operate independently, are bound together under one retirement law: Chapter 32 of the Massachusetts General Laws, which establishes the benefits, contribution requirements, and accounting structure for the systems.

MSERS is a contributory defined-benefit retirement system, governed by Chapter 32 of the General Laws, that provides retirement, disability, survivor, and death benefits to members and their beneficiaries. All MSERS members who are regularly employed on a part-time or full-time permanent basis are required to enroll with MSRB and make mandatory pretax contributions through payroll deductions. Members contribute a percentage of their earnings based on the date they were hired and became members of MSERS:

Date Hired	Contribution Rate*
Before January 1, 1975	5%
January 1, 1975 through December 31, 1978	7%
January 1, 1979 through December 31, 1983	7%, plus 2% on earnings over \$30,000
January 1, 1984 through June 30, 1996	8%, plus 2% on earnings over \$30,000
July 1, 1996 through present	9%, plus 2% on earnings over \$30,000

* Exceptions:

Members appointed to the State Police on or after July 1, 1996 contribute 12%.

Group 1 members (i.e., "officials and general employees including clerical, administrative and technical workers, laborers, mechanics, and all others not otherwise classified," according to MSRB's website) whose service began after April 2, 2012, and who have attained more than 30 years of service, contribute 6% plus 2% on earnings over \$30,000.

Based on a member's age, length of service, and group classification,¹ retirement allowance benefits can be up to 80% of the average of the member's three highest-paid consecutive years of service (if the

1. A member's position, occupation, and duties performed determine the group classification.

member was hired before April 12, 2012) or the average of the five highest-paid consecutive years of service (if hired thereafter).

Governance

Section 50 of Chapter 7 of the General Laws governs how public employee retirement systems are overseen and regulated by the Public Employee Retirement Administration Commission (PERAC). Section 1 of Title 840 of the Code of Massachusetts Regulations governs the administrative procedures, financial operations, recordkeeping, and reports required of public employee retirement systems.

As part of its oversight, PERAC performs periodic reviews of records of all retirement systems at least once every three years. PERAC also provides training as well as legal and technical assistance to retirement boards.

MSRB files an annual report with PERAC for each fiscal year on or before December 31 of the following fiscal year. The annual report contains the assets and liabilities of MSERS and MTAERS, as well as statistical information regarding membership, findings of audits, the most recent actuarial valuation,² the system's investment portfolio, and any other pertinent information that PERAC deems appropriate. MSERS's and MTAERS's disbursements for annuities and pensions for July 2017 through June 2019 were as follows:

	July 2017–June 2018	July 2018–June 2019
MSERS Disbursements	\$ 2,230,740,039	\$ 2,340,305,905
MTAERS Disbursements	15,585,244	15,155,776
Total	<u>\$ 2,246,325,283</u>	<u>\$ 2,355,461,681</u>

The Pension Reserves Investment Management Board manages and invests MSRB member contributions and assets; these funds are held in a trust fund known as the Pension Reserves Investment Trust (PRIT). MSRB's annual reports for fiscal years 2018 and 2019 listed the following investment values as of June 30, 2018 and June 30, 2019:

2. An actuarial valuation is a statement of future values of pension assets and liabilities based on certain assumptions, including pensioner demographics.

	As of June 30, 2018	As of June 30, 2019
MSERS Investment in PRIT Capital Fund	\$ 27,554,530,336	\$ 28,374,124,490
MSERS Investment in PRIT Cash Fund	28,974,989	30,621,937
MTAERS Investment in PRIT Capital Fund	174,856,275	169,577,674
MTAERS Investment in PRIT Cash Fund	248,083	235,103
Total	<u>\$ 27,758,609,683</u>	<u>\$ 28,574,559,204</u>

MSRB Composition

MSRB is a five-member board established by Section 18 of Chapter 10 of the General Laws. It includes the State Treasurer and Receiver General, who is its chair; one member appointed by the State Treasurer and Receiver General, who must be a retired member; two members elected by current and active members of MSERS; and one member chosen by the other members of MSRB. As of June 30, 2019, the board consisted of the following members:

- Chair ex officio: Deborah B. Goldberg, State Treasurer and Receiver General
- Appointed member: Patricia Deal
- Elected member: Francis Valeri
- Elected member: Theresa McGoldrick
- Chosen member: Archibald Gormley

The board is required to meet at least once a month. According to the *MSERS Benefit Guide*, dated August 2018, MSRB “processes and approves retirement applications, ordinary and accidental disability retirements, refunds, service purchases, and survivor benefits” and “is a resource for state employees seeking information on retirement.”

MSRB maintains offices in Boston and Springfield to administer and implement its policies. According to its annual report, as of June 30, 2019 there were 76 permanent full-time, 4 permanent part-time, and 3 contract employees serving more than 89,000 active MSERS and MTAERS members and more than 64,000 retirees and survivors.

Retirement Application Process

For eligible members, the standard superannuation³ retirement process begins with the submission of a retirement application. MSRB reviews submitted applications, and if requested, counselors meet or correspond with the applicants. For completed applications, a member of the MSRB Benefit Calculation Unit confirms and enters data, such as dates of birth, option selections (see [Appendix](#)), and beneficiary data, in MSRB's Massachusetts Retirement Information System (MARIS) and verifies them as complete and accurate. When data entry and verification are complete, MSRB sends requests for salary histories, current wage data, dates of service, and final pension contribution amounts, known as Salary Request and Release Forms, to the employing agencies. Once MSRB has received and verified all required data, another member of the Benefit Calculation Unit calculates benefits and submits them for quality review and recalculation by a third unit member. When the first benefit payment is issued, a letter known as a first pay letter is sent to the retiree, containing the details of retirement, including service dates, salary averages, and amounts of initial payments.

MSRB processes approximately 3,000 retirements annually. The retirement application indicates that retirement processing generally takes 60–90 days from the date of retirement to the date of first payment. Section 13(1)(b) of Chapter 32 of the General Laws indicates that the first payment must be made “on the last day of the month following the month in which . . . such . . . pension . . . becomes effective.” Depending on the day of the month when retirements occur, payments can be due within 28 to 62 days.

Benefit Eligibility Verification Procedures

Periodically, MSRB provides a third-party vendor with a copy of its entire MARIS retiree payee file, including designated joint survivors (Option C beneficiaries⁴), for the purpose of identifying member and beneficiary deaths. During the audit period, files were provided to the vendor six times. The vendor cross-matches the information in this file with its death data to determine whether any MSRB benefit recipients or designated beneficiaries have died. Each week, the vendor returns the results of its match to MSRB for examination and, if necessary, appropriate action by MSRB. Possible actions include the following:

-
3. The *Massachusetts Public Employee Retirement Guide for Those Becoming Members Prior to April 2, 2012* defines “superannuation” as “the process of being retired upon reaching a certain age and meeting other requirements, including length of creditable service.”
 4. A member who chooses an Option C retirement allowance designates a beneficiary who, upon the member's death, is paid a lifetime monthly benefit.

- termination of benefit payments, if there are no survivor benefits
- termination of benefit payments and, if applicable, payment of remaining annuity allowance to beneficiaries or members' estates
- creation of new payees and calculation of benefit payments, for Option C beneficiaries
- adjustment of retirees' benefit payments, if Option C beneficiaries predecease retired members
- payment of underpaid benefits to members' estates, if applicable, depending on date of death and date of suspension of benefit payments
- collection of overpaid benefits from members' estates, if applicable, depending on date of death and date of stoppage of benefit payments.

MSRB also examines monthly death reports provided by the state's Group Insurance Commission, as well as notifications from family members of deceased pensioners.

In addition, to ensure that pensioner information on file is accurate, MSRB contracts with a third-party vendor to mail out Benefit Verification Forms (BVs) once every two years.⁵ The forms must be signed by benefit recipients and notarized. The vendor processes and reviews returned BVs to determine completeness (for instance, whether the BV has been signed and notarized). The vendor reports any discrepancies on the BVs to MSRB for follow-up. If a pensioner does not return the BV by the designated due date, his/her pension benefits are suspended until the form is received.

5. Section 15.01 of Title 840 of the Code of Massachusetts Regulations requires that each retirement board perform, at least once every two years, a verification of all retirees and beneficiaries who receive monthly benefits. To this end, MSRB requires benefit recipients to file notarized affidavits including statements certifying that they are alive. The last benefit verification process during our audit period was initiated in April 2018 for an estimated 63,000 individuals.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Massachusetts State Retirement Board (MSRB) for the period July 1, 2017 through June 30, 2019.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer, the conclusion we reached regarding each objective, and where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does MSRB ensure that members receive their first pension payments within the timeframe established by Section 13(1)(b) of Chapter 32 of the General Laws?	No; see Finding <u>1</u>
2. Has MSRB taken corrective measures to address the issues identified in the prior OSA audit (Audit No. 2015-0088-3S) with its benefit eligibility verification procedures?	No; see Finding <u>2</u>

To achieve our audit objectives, we gained an understanding of MSRB's internal control environment related to our audit objectives by reviewing agency policies and procedures, as well as conducting inquiries with MSRB's staff and management. We reviewed, and tested the operating effectiveness of, internal controls related to the processing of new retirees' first pension payments and MSRB's benefit eligibility verification procedures.

To obtain sufficient, appropriate audit evidence to address our audit objectives, we conducted further audit testing as follows.

- To determine whether MSRB processed first pension payments within the required timeframe, we performed the following procedures.
 - MSRB gave us a list of all 6,032 new retirements with effective dates during our audit period from the Massachusetts Retirement Information System (MARIS), MSRB's benefit-

administration system. For each new retiree, we calculated the amount of time between the effective date of retirement and the date of the first pension payment.

- We then grouped, or stratified, the population of new retirements during our audit period into four categories based on the number of days between the effective date of retirement and the date of the first pension payment:

Segment	Days to Process First Payment	Population	Percentage of Total
Noncompliant—General	63 to 179 days	5,559	92.2%
Noncompliant—Outlier	180 days or more	289	4.8%
In Compliance*	62 days or less	175	2.9%
Data Issues	Data fields were blank or missing	9	0.1%
Total		6,032	100%

* For audit testing purposes, we defined “in compliance” as “processed within 62 days.” By statute, “in compliance” can range from 28 to 62 days depending on the day of the month retirements are effective, as outlined in the [“Overview of Audited Entity”](#) section of this report under [“Retirement Application Process.”](#)

- We selected a statistical random sample for testing, with a 95% confidence level and a 0% expected error rate, of 60 of the 5,559 retirements in the Noncompliant—General segment (processing times of 63 to 179 days). We also selected a nonstatistical random sample of 40 of the 289 Noncompliant—Outlier retirements (processing times of 180 days or more) for testing. We analyzed the retirement application processing timeline for the selected cases to determine whether there were any underlying reasons for the delays in processing first payments. We reviewed supporting documentation (such as retirement applications, application checklists, application receipt acknowledgement letters, Salary Request and Release Forms, benefit request sheets, data and annuity sheets, first pay letters, and OnBase⁶ workflow reports) to identify any occurrences of similar circumstances, common causes for delays, or other trends in the data that may have contributed to the delays.
- We randomly selected a nonstatistical sample of 35 of the 175 In Compliance retirements. We reviewed retirement applications for completeness and the content of first pay letters to determine whether there was any evidence of common attributes, data trends, or potential best practices that may have contributed to the favorable processing times.
- We also tested all nine retirements that had incomplete information to determine underlying causes for the data omissions or any irregularities related to the retirement data being incomplete. For all nine retirements, certain data elements such as payment amount were incomplete because the retiree had died shortly after the retirement date.
- To determine whether MSRB had taken corrective measures to address the issues identified with its benefit eligibility verification procedures in our previous audit, we performed the following procedures.

6. OnBase is a document imaging and workflow management application.

- We reviewed the procedures conducted during MSRB's last benefit verification process, which was initiated in April 2018. Specifically, we obtained a list, as of March 2018, of 62,650 then-current retirees and Option C beneficiaries used for the mailing of the 2018 Benefit Verification Forms (BVs). We selected a statistical random sample, with a 95% confidence level and a 0% expected error rate, of 60 of the 62,650 benefit recipients and reviewed their files to determine whether BVs were signed by the benefit recipients and notarized.
- MSRB gave us a list of all 179 benefit recipients who did not return BVs after the third, final mailing in January 2019. We selected a nonstatistical, random sample of 20 and reviewed supporting documentation, such as death certificates and pension warrants (lists of monthly benefit payments), to determine whether the recipients had been reported as deceased and whether benefit payments had been terminated.
- To determine whether MSRB promptly identified deceased members and beneficiaries and satisfactorily adjusted benefit payments, we obtained a system-generated list of all 4,427 retirees and Option C beneficiaries whose recorded dates of death occurred during our audit period. We selected a statistical random sample, with a 95% confidence level and a 0% expected error rate, of 60 deceased benefit recipients and reviewed supporting documentation (such as retirement applications, BVs, death certificates, death notices, obituaries, and correspondence) to determine whether death certificates were on file; dates of death were promptly and accurately recorded in MARIS; and appropriate actions were taken, including accurate and timely adjustments to benefit payments when necessary.
- MSRB gave us all 92 data files it had received during our audit period from its third-party vendors. These data files contained listings of possible deaths⁷ identified by the vendors cross-matching MSRB's entire retiree payee file with their own death data. We selected a nonstatistical, random sample of 20 of the 92 files for testing. From each of the 20 files, we judgmentally selected three possible deaths and reviewed supporting documentation (such as retirement applications, BVs, death certificates, death notices, obituaries, and other correspondence) to determine whether the names and Social Security numbers were contained in the MSRB retiree payee files that MSRB provided to the vendors and the list of recorded deaths during the audit period. We also checked that the dates of death were promptly and accurately recorded in MARIS and appropriate actions were taken, including the accurate and timely resolution of any necessary adjustments to benefit payments.

Where nonstatistical sampling was used, we could not project the results of our testing to the overall populations.

Data Reliability

We assessed the reliability of the data obtained from MARIS, MSRB's benefit administration system, by interviewing knowledgeable personnel at the agency about the system and testing the data for duplicate

7. The vendors' match produces a file of deceased individuals whose names and Social Security numbers closely match those of individuals in MSRB's retiree payee file. MSRB conducts additional research to determine whether the decedents are MSRB payees.

records and dates outside our audit period. We also verified the number of records in each data population by comparing the total number of records to those in other data sources such as annual reports and pension warrants. Further, we traced samples of records, from the data provided to us, to and from original source documents (such as retirement applications, BVFs, death certificates, death notices, and pension warrants) for completeness and accuracy. We determined that the information obtained from MARIS for our audit period was sufficiently reliable for our audit work.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts State Retirement Board did not always make initial benefit payments within the mandated timeframe.

The Massachusetts State Retirement Board (MSRB) was delayed in issuing initial monthly benefit payments to retirees. Our analysis of the 6,032 retirees whose effective date of retirement were during our audit period showed that only 175 (3%) received their first monthly benefit payments within the required timeframe. The delays may have resulted in financial hardship for retirees.

On average, the first payment took 115 days, which is 53 days longer than the state-mandated 62-day⁸ timeframe. For the 6,032 retirements included in our analysis and testing, retirement processing times ranged from 23 days to 907 days, as measured from dates of retirement to the dates of initial payment. The detailed substantive testing we performed on 100 noncompliant random samples (60 in the Noncompliant—General segment and 40 Noncompliant—Outlier) supports the processing delays identified by our analytical procedures. The detailed substantive testing examined documentation such as retirement applications, application checklists, application receipt acknowledgement letters, Salary Request and Release Forms, benefit request sheets, data and annuity sheets, first pay letters, and OnBase workflow reports.

Authoritative Guidance

Section 13(1)(b) of Chapter 32 of the Massachusetts General Laws states,

The first . . . full payment [to a retiree] shall be due and payable on the last day of the month following the month in which falls the date as of which such annuity, pension or retirement allowance becomes effective. If such effective date is a day other than the last day of the month in which it falls, a pro rata payment shall be allowed for the period following such date and ending with such last day.

We believe this excerpt indicates that the first full payment is due and payable on the last day of the month that follows the month of retirement. If the retirement date falls on the last day of a month, then payment is due on the last day of the following month and payable in a minimum of 28 days. If the retirement date falls on the first day of a month, then payment is due on the last day of the following month and payable in a maximum of 62 days.

8. For audit purposes, processing times of 62 days or less were considered compliant. By statute, compliance can range from 28 to 62 days depending on the day of the month retirements are effective, as outlined in the "[Overview of Audited Entity](#)" section of this report under "[Retirement Application Process](#)."

Reasons for Delays

According to MSRB management, delays in the issuance of first benefit payments are primarily caused by submission of inaccurate or incomplete information by retirees or employing agencies. Management indicated that when this happens, the processing of applications slows or stops until accurate and complete information is received, and retirees are not notified of the delays after application receipt acknowledgement letters are issued. MSRB management added that the agency often needs additional time to conduct research, verify information, request additional or revised information, and confirm the accuracy and completeness of the data used to calculate benefits.

In addition, our audit work indicated that one cause of the payment delays was the timing of the issuance and receipt of Salary Request and Release Forms. Specifically, MSRB officials told us they do not send a form until about two weeks before a member retires, so as to obtain the member's most recent possible pay rate, retirement contributions, and salary history. They stated that they do this in order to calculate benefits accurately and avoid making adjustments due to changes in this information. They also told us that in many instances, multiple salary requests are sent before responses are received, so there can be delays in receiving the necessary information.

In its response to our audit dated December 1, 2020, MSRB indicated that there were additional reasons for delays in the issuance of first benefit payments, including the following:

Contributing factors during the audit period include the conversion to MARIS in January 2017 which affected all MSRB operations as the new operating software was brought on-line and staff devoting to it significant time and effort to the implementation during the audit period. Also, due to the elevated quality assurance requirements built into MARIS, there are multiple approval steps required to process a benefit transaction and create a specific audit trail. These steps may add time required to initiate benefits in MARIS when compared to the previous . . . system. . . .

MSRB staffing limitations and turnover have also impacted benefit productivity and workflow. . . . During the audit period, the MSRB lost approximately 36 staff members overall from an organization of 70–75 at the time. Of those separating from service 25% were Benefit Calculation staff.

Recommendations

1. MSRB should send Salary Request and Release Forms to employing agencies upon receipt of retirement applications or within two weeks thereafter.
2. For applications whose processing is delayed, MSRB should notify applicants, indicate reasons for delays, and outline required remedial action.

Auditee's Response

We appreciate that the [Office of the State Auditor, or OSA] audit staff reviewed the processing steps and the work product associated with new retiree applications, and understood the challenges presented to the MSRB in receiving accurate information necessary to initiate retirement benefits. The items noted in the report that interfere with the MSRB's processing represent cumulative contributing factors, many of which are not always within the control of the MSRB to mitigate easily. . . .

The MSRB has actively implemented several measures to mitigate the impact of initiating benefit payments that could affect retiring members. For example, since 2015 the MSRB has made available an advance benefit payment for pending retirees. Advance payments are permitted by Chapter 32, §98 and are available to new retirees if their benefit payments have not been initiated after forty-five (45) days from their retirement date. This information is provided during retirement counseling, on the retirement application and at several locations on the MSRB's website associated with filing to retire. The advance process has allowed new retirees to receive benefit payments in the form of a pre-loaded debit card up to an amount of 50% of their expected first payment the amount of which is deducted from their initial benefit payment.

Additionally, the MSRB has more recently implemented a monthly accelerated payment program. This allows the MSRB to identify new retirees who have not yet received their first benefit payment and to receive in mid-month their retro-active benefit payments (from their retirement date through the end of the prior month). This avoids these new retirees having to wait until the end of the current month to receive the retro benefits together with their first month's benefit payment.

The MSRB is also compelled to note that the sample of retirements reviewed by the OSA included almost 300 applications for Disability Retirement benefits. The application process for these benefits inherently takes longer to complete given the statutory requirements including: scheduling of medical panel examinations by [the Public Employee Retirement Administration Commission, or PERAC]; submissions of a statement by the employer; review by a retirement board; and final approval by PERAC before benefits may be initiated. As a result, the permissible time period for making a final determination of disability cases by retirement boards and initiating payments, with certain exceptions, is several months from the date of filing an application as permitted by G.L. c.32, §7(6). Including the time periods for disability cases in the applications reviewed would incorrectly inflate the processing times of the sample used. . . .

Even more direct impacts on the retirement process arise from the responsiveness and accuracy of [Human Resources, or HR] / Payroll data from employing agencies. Experience has demonstrated that the retirement of many Human Resource and Payroll personnel across state government during the 2015 Early Retirement Incentive Program compounded the MSRB frequently receiving incomplete or inaccurate member data or having to issue multiple requests. . . .

MSRB staff and the Board is open and prepared to explore implementing the earlier issuance of the Salary Request & Release Forms in the application process and copying members of ongoing data requests sent out by the MSRB. While potentially helpful and keeping retiring members

informed of MSRB efforts these measures may have impacts beyond the control of the MSRB including:

With most retirees submitting their application one to three months ahead of their retirement date, this recommendation will require employing agencies to project and provide a breakdown of the types of specialty pay (e.g. differentials) the member may receive through the date of retirement. However, they will not be able to provide the total amounts. While sending the requests sooner would be useful to identify specialty pay, ascertain if it has been properly reported and will be pensionable, agencies would still have to submit final totals, any revisions in salary rates and specialty pay types once the employee has separated from service to ensure that we have received the correct information.

MSRB staff based on their experience would be concerned that sending the Request Form too soon may also create confusion or lead to the Form being ignored. Additionally, an earlier issuance of the Request Form leaves unresolved the issue of the MSRB receiving accurate data, including retroactive pay information, if a retroactive adjustment is made in between completing the form the member's retirement.

Non-responsive agencies will continue to require automated follow up requests, although the MSRB will review having retiring employees copied on any follow up inquiries to agencies.

Requesting salary information this far in advance may also increase the administrative workload and lead to uncertainty among agency HR / Payroll staff in cases of retirees who eventually change their retirement date or withdraw their retirement applications altogether.

As was discussed the submission of retirement applications also competes for the attention of agency and MSRB staffs against the volume of retro-active benefit adjustments which must be processed. Such adjustments continue to be created as funding is approved by the Commonwealth for collective bargaining agreements which are settled. Recently, there were more than 1,000 such adjustments pending.

Auditor's Reply

OSA acknowledges that retirement application processing times vary widely because of several factors, some of which may not always be in MSRB's control. However, as noted above, during our audit period, 97% of all new retirees did not receive their first benefit payments within the timeframe prescribed by Section 13(1)(b) of Chapter 32 of the General Laws. We believe this indicates significant problems in this area. To the extent possible, MSRB needs to address the problems.

As noted above, the timing of the issuance and receipt of Salary Request and Release Forms was one of the causes of processing delays. Therefore, we recommended that MSRB consider sending Salary Request and Release Forms to employing agencies upon receipt of retirement applications or within two weeks thereafter and that MSRB notify applicants, indicate reasons for delays, and outline required

remedial action. Although we acknowledge that making these changes to the retirement application process may present challenges to MSRB, we believe that it will make the process more efficient. MSRB indicates that it will consider implementing our recommendations. We acknowledge that it is ultimately up to MSRB management to determine what measures it can and should take to improve this process given its available resources.

OSA acknowledges that it can take MSRB longer to process disability retirement benefits than regular benefits. However, applications for disability retirement benefits represented less than 5% of the total applications that MSRB processed during our audit period. For the 5,738 non-disability-related retirements in our population, it took an average of 107 days for retirees to receive their first monthly benefit payments. This is still 45 days longer than the mandated 62-day timeframe. Further, processing times for non-disability retirements ranged from 23 days to 852 days. This indicates that regardless of the type of retirement application, significant delays in processing these applications occur.

In its response, MSRB indicates that it makes available to pending retirees an advance benefit payment of up to 50% of their expected initial benefit payment if the benefit payments have not been initiated 45 days after their retirement date. However, during our audit, we analyzed participation in this program and found that only 123 (2%) of the 6,032 new retirees in our population received advances.

MSRB has also recently implemented a monthly accelerated payment program. OSA believes that establishing this program was a prudent measure to help retirees meet their financial needs while waiting to receive their retirement benefits.

Based on its response, MSRB is taking some measures to address our concerns in this area. We urge MSRB to fully implement our recommendations.

2. MSRB did not verify the accuracy of randomly sampled Benefit Verification Forms.

In our prior audit, we found that MSRB had not audited at least 5% of the Benefit Verification Forms (BVs) it received from its members every two years as required by PERAC regulations. During our current audit period, this issue had not been fully resolved. During its last BVF process, initiated in 2018, MSRB did not audit a random sample of at least 5% of BVs received. Without random verifications, there is inadequate assurance that all the information reported by members, which MSRB uses to determine their continued eligibility for pension benefits, is complete and accurate.

Authoritative Guidance

Section 15.01(3) of Title 840 of the Code of Massachusetts Regulations (CMR) requires MSRB to collect BVFs from all its benefit recipients at least every two years and then audit a random sample of at least 5% of the BVFs received.

Reasons for Lack of Verification

MSRB management told us it could not comply with the 5% requirement because of the volume of documents involved. For the 2018 BVF process, more than 62,400 BVFs were returned, and MSRB would have needed to audit approximately 3,100 affidavits. According to management, this review would have required more personnel than were available at the time.

Further, because of its high number of retirees and beneficiaries, MSRB uses a third-party vendor to administer the initial BVF mailings. The vendor is responsible for confirming that each returned BVF is complete, properly executed, and notarized and that no changes to demographic or beneficiary information have been submitted. If any of the foregoing occurs, the vendor notifies MSRB of the BVF in question so that MSRB's staff can follow up with the member and update the agency's records. Taking into account these procedures completed by its vendor, coupled with its regular electronic data matches of its entire benefit recipient database, MSRB considers the random 5% audit required by 840 CMR 15.01(3) excessive and unnecessary and pointed out that the language of 840 CMR 15.01(3) predates some of the practices MSRB can now perform: 840 CMR 15 dates back to at least September 1984, and MSRB management told us they had conducted regular electronic data matches of the agency's entire benefit recipient database since at least as long ago as July 2005.

In response to our prior audit, MSRB corresponded with PERAC, seeking clarity on whether PERAC believed the above process complied with the regulation's intent. In February 2017, PERAC clarified that the third-party vendor's review did not meet the regulatory audit requirement. In PERAC's opinion, MSRB is only auditing the BVFs that have been flagged by the vendor as incomplete, improperly executed or notarized, or containing changes to the beneficiary's demographic information, rather than a random sample of at least 5% of BVFs received, as the regulation requires.

Recommendations

1. MSRB should perform random reviews and verifications of biennial BVFs received to determine the accuracy of information reported and stored in its database, as currently required by PERAC regulations.
2. MSRB should collaborate with PERAC to evaluate the benefit (if any) derived from conducting the biennial verification process, given its current death match process.

Auditee's Response

During the 2018 BVF process, the vendor sent the MSRB 9,364 file records that had some type of member data correction or update. There were also 1,817 file records that had an attachment (Power of Attorney, Conservator or Guardianship documents). In addition, 2,151 file records were reported as rejected. All these BVF's would have required individual review by the MSRB for member data changes, vendor accuracy, and would have required direct inquiry and follow up by MSRB staff with the affected retirees and beneficiaries. The above BVF's whose deficiencies were addressed individually by MSRB staff, represent more 23% of the benefit recipients (approximately 57,000).

The above BVF's reviewed by the MSRB which contained a correction, attachment or were rejected were significantly more than the 5% requirement of the BVF's received. Moreover, the MSRB reviewed a separate 5% sampling of BVF's after the vendor had returned all the 2018 BVFs and completed their [Statement of Work] obligations.

In October 2018, there were approximately 800 BVFs that remained outstanding, and after a decision made by the MSRB Board, payments were withheld from each benefit recipient. MSRB staff thereafter made follow-up attempts to obtain signed BVFs; and upon receipt then issued eligible payments.

By Feb 2019, MSRB terminated payments of 179 individuals who did not submit and complete their BVF by the close of the pension warrant on February 21, 2019.

We would agree with the OSA in so far as there remains a continuing need to assess whether the issuance and processing of BVF's as currently required provides value and is effective given the more frequent and regular electronic data matches carried out by the MSERS and other boards, or whether perhaps there could be an administrative exemption allowed by PERAC given these measures. Otherwise, it would be instructive for PERAC to issue additional guidance on criteria to be followed describing an expected audit, or to re-assess and amend the current regulation so as to take into consideration some the described practices.

With regard to the specific finding, it should be noted that 840 CMR 15.01(3) does not define nor has it been amended to describe what steps are required to "audit" the verification statements that are received. Additionally, although not required by the regulations, the MSRB requires its BVF's through the audit period to be independently notarized as part of the verification process to substantiate continued eligibility for benefits.

In our estimation, by a reasonable definition of "audit" as found in §15.01(3), the actions taken by the MSRB with regard [to] its BVF efforts in 2018 satisfy the requirement of the regulations. . . .

Based on the foregoing, and on the particular circumstances related to our operations, the MSRB believes the process followed by the Board complies with [840] CMR §15.01(3).

Nonetheless, with the 2020 BVF process, the MSRB has performed the following audit of BVFs:

- *Reviewed [vendor PBI Research Services'] monthly data to make sure all benefit recipients were properly on initial mailing list;*
- *The MSRB's vendor was directed to randomly pre-select 5% of the BVFs before sending out the first mailing so the MSRB could later verify:*
 - *The BVF has been reviewed by vendor*
 - *The BVF was approved/rejected appropriately*
 - *For those . . . deemed rejected, incomplete, require additional follow-ups or changed demographic information, MSRB staff reviewed and followed up appropriately*
 - *For those benefit recipients to have been found in the death match from vendor and where the MSRB had not received death certificates, further review of the BVFs to double confirm the death match result.*

Auditor's Reply

As noted above, during its last BVF process, initiated in 2018, MSRB did not audit a random sample of at least 5% of BVFs received. In its response, MSRB delineates extensive verification procedures it performs on these records. However, as stated above, PERAC has determined that MSRB's verification process does not satisfy the requirement of 840 CMR 15.01(3) that MSRB audit a random sample of at least 5% of BVFs received.

Based on its response, MSRB has taken measures to comply with 840 CMR 15.01(3) for its 2020 BVF process. We urge MSRB to implement our recommendation regarding collaborating with PERAC to evaluate the continuing value of the biennial verification process, given its current death match process.

APPENDIX

Retirement Allowance Options

At retirement, state employees choose one of three options that determine how retirement benefits are paid. If no option is selected, Chapter 32 of the Massachusetts General Laws states that the member defaults to Option B.

Retirement allowances are paid monthly. The payment amount depends on the option selected. The option also determines what benefits, if any, will be paid to survivors. The options are as follows:

- Option A: Members receive their full retirement benefit in monthly payments during their lifetime. All benefit payments cease upon their death, and no benefits are provided for their survivors.
- Option B: Members receive a lifetime benefit that is approximately 1% to 5% less per month than Option A. The annuity portion (member contributions) of their benefits is reduced to allow for a potential benefit for their beneficiaries. Upon a member's death, surviving beneficiaries are paid the unexpended balance of the accumulated total contributions.
- Option C: Members receive a lifetime benefit that is approximately 7% to 15% less per month than Option A. Upon a member's death, the designated beneficiary is paid a monthly benefit for the remainder of his or her lifetime.