



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

Making government work better

Official Audit Report – Issued October 14, 2021

Massachusetts Teachers' Retirement System

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





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

Making government work better

October 14, 2021

Ms. Erika M. Glaster, Executive Director
Massachusetts Teachers' Retirement System
500 Rutherford Avenue
Charlestown, MA 02129

Dear Ms. Glaster:

I am pleased to provide this performance audit of the Massachusetts Teachers' Retirement System. 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 Teachers' Retirement System 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: Dr. Ventura Rodriguez, Chair, Massachusetts Teachers' Retirement Board
John W. Parsons, Esq., Executive Director, Public Employee Retirement Administration Commission

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LIST OF ABBREVIATIONS

BAFU	Benefit Adjustment and Finalization Unit
IRS	Internal Revenue Service
MTRS	Massachusetts Teachers' Retirement System
OSA	Office of the State Auditor
PERAC	Public Employee Retirement Administration Commission
PRIT	Pension Reserves Investment Trust
SSN	Social Security number

EXECUTIVE SUMMARY

The Massachusetts Teachers' Retirement System (MTRS) is the largest contributory retirement system in the Commonwealth. According to its website, MTRS provides "retirement, disability, and survivor benefits to Massachusetts teachers, administrators and their families." MTRS is administered by the Massachusetts Teachers' Retirement Board, and it is overseen and regulated by the Public Employee Retirement Administration Commission. In fiscal year 2019, MTRS issued more than \$3 billion in benefit payments to more than 67,000 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 MTRS for the period July 1, 2017 through June 30, 2019.¹ The purpose of our audit was to determine whether (1) MTRS ensured that members received their first pension payments within the timeframe established by Section 13(1)(b) of Chapter 32 of the General Laws, (2) MTRS ensured that adjustments made to monthly benefit payments after the issuance of the first payments were completed accurately in accordance with Section 5(2) of Chapter 32 of the General Laws, and (3) MTRS promptly identified deceased retirees and beneficiaries and subsequently adjusted or terminated benefit payments accurately in accordance with Section 12(2) of Chapter 32 of the General Laws.

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

Finding 1 Page 12	MTRS did not always make initial benefit payments within the mandated timeframe.
Recommendation Page 13	MTRS should examine the benefit of redeploying existing resources toward processing retirement applications that are received 60 days or less before proposed retirement dates in an effort to achieve a higher percentage of "compliant" retirements. ²

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1. Generally accepted government auditing standards require that organizations be free from organizational impairments to independence with respect to the entities they audit. Under Section 16 of Chapter 15 of the General Laws, the Massachusetts Teachers' Retirement Board consists of seven members, including the State Auditor. This disclosure is made for informational purposes only, and this circumstance did not interfere with our ability to perform our audit work and report its results impartially.
 2. For audit testing purposes, we defined "compliant" as "processed within 62 days." By statute, the timeframe for compliance can range from 28 to 62 days depending on the day of the month a retirement is effective, as outlined in the "[Overview of Audited Entity](#)" section of this report under "[Retirement Application Process](#)."

Finding 2 Page <u>15</u>	MTRS made approximately \$1,470 of monthly benefit payments to a member whose account contained an invalid Social Security number (SSN).
Recommendations Page <u>16</u>	<ol style="list-style-type: none">1. MTRS should correct the member's SSN in MyTRS and issue a corrected Form 1099-R to both the member and the Department of the Treasury's Internal Revenue Service (IRS).2. MTRS should ensure that all benefits are paid and reported to the IRS under the correct SSN.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Teachers' Retirement System (MTRS) was established on July 1, 1914. According to its website,

The MTRS, which is the largest of the Commonwealth's 104 contributory retirement systems, provides retirement, disability and survivor benefits to Massachusetts teachers, administrators and their families.

Chapter 32 of the Massachusetts General Laws establishes the system's benefits, contribution requirements, and accounting structure. Teachers and administrators in Massachusetts public schools (except those employed by the City of Boston³), educational collaboratives, and charter schools are eligible for membership.

All members are required to enroll with MTRS and make mandatory pretax contributions through payroll deductions. Members contribute a percentage of their earnings based on the date they were hired and when they joined the public employee retirement system:

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 June 30, 2001	9%, plus 2% on earnings over \$30,000
July 1, 2001 through April 1, 2012	11%
April 2, 2012 through present	11% (reduced by 3% after 30 years of service)

Based on a member's age, length of service, and average salary, retirement allowance benefits can be up to 80% of the average of the member's three highest-paid consecutive years of service (if the member was hired before April 12, 2012) or the average of the five highest-paid consecutive years of service (if the member was hired thereafter).

3. Teachers employed by the City of Boston are members of the Boston Retirement System.

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). Sections 1 through 5 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.

MTRS files an annual report with PERAC for each fiscal year (which ends on June 30) on or before December 31 of the following fiscal year. The report shows MTRS's assets and liabilities, as well as statistical information regarding membership, audit findings, the most recent actuarial valuation,⁴ the system's investment portfolio, and any other pertinent information that PERAC deems appropriate. MTRS's disbursements for annuities and pensions for July 2017 through June 2019 were as follows.

	July 2017–June 2018	July 2018–June 2019
MTRS Disbursements—Gross	\$ 3,123,875,940	\$ 3,235,508,937
Less: Refunds, Transfers, and Reimbursements	(187,167,100)	(208,386,577)
MTRS Disbursements—Net	<u>\$ 2,936,708,840</u>	<u>\$ 3,027,122,360</u>

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

	As of June 30, 2018	As of June 30, 2019
MTRS Investment in PRIT Capital Fund	\$ 28,559,010,612	\$ 29,318,664,851
MTRS Investment in PRIT Cash Fund	29,048,393	46,828,674
Total MTRS Investments	<u>\$ 28,588,059,005</u>	<u>\$ 29,365,493,525</u>

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

Retirement benefits that members will eventually receive have two parts: an annuity and a pension. The annuity consists of contributions deducted during employment; the pension is the difference between the total retirement allowance specified by law and the amount of a member's contributions and related investment earnings.

Massachusetts Teachers' Retirement Board

In accordance with Section 16 of Chapter 15 of the General Laws, MTRS is administered by an unpaid seven-member board made up of the following members:

- Commissioner of Education or his/her designee, chairperson
- State Treasurer and Receiver General or his/her designee
- State Auditor or his/her designee
- Governor's designee, who must be a retired teacher
- two members elected by the active and retired members of MTRS
- one member elected by the other six members of the board

Each member serves a four-year term, except the Commissioner of Education, the State Treasurer, and the State Auditor, who serve as long as they are in office. According to MTRS's website,

The Board, which meets at least once a month,

- *votes on every disability retirement allowance,*
- *investigates all claims for accidental and ordinary disabilities,*
- *establishes the rules and regulations of the agency, and*
- *oversees the dissemination of services and information to its membership of more than 93,000 active educators and over 66,000 retirees and survivors.*

MTRS maintains offices in Charlestown and Springfield to administer and implement its policies. According to its annual report, as of June 30, 2019 there were 90 permanent full-time and 12 permanent part-time employees serving MTRS members.

Retirement Application Process

For eligible members, the retirement process begins with the submission of a retirement application. MTRS reviews submitted applications and groups them based on how many days before the retirement dates they were received. If necessary, MTRS Member Services Department counselors meet or correspond with applicants to ensure that application data are complete. When an application is complete, a Member Services Department retirement analyst enters data, such as applicant date of birth, retirement option selection (see [Appendix](#)), beneficiary data, salary, years of service, and final contribution amount, in MTRS's benefit administration system (which is called MyTRS) and verifies the application as complete and accurate. Once MTRS has received and verified all required data, certain applications are subject to a quality review audit and recalculation by a Member Services Department manager based on specific risk criteria. For instance, such reviews are conducted for applications from administrators whose pay is not determined by a collective bargaining agreement, members who may be entitled to benefits from multiple retirement systems, and retirees who are entitled to enhanced benefits because they have been members of the system for 30 or more years. Next, letters known as notices of estimated retirement benefits, or first pay letters, are sent to new retirees; they list the details of retirement, including service dates, average salary (average of the member's three or five highest-paid consecutive years of service), and initial payment amounts.

MTRS processes approximately 2,500 retirements annually. The retirement application recommends planning for retirement at least six months in advance and then filing the application three to four months before the retirement date. According to MTRS management, applications are processed in 75 to 120 days, and the earlier an application is submitted, the quicker first payments can be made after the retirement date. Section 13(1)(b) of Chapter 32 of the General Laws states that 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 a retirement occurs, payment can be due in 28 to 62 days.

Benefit Payment Adjustments

Each year some retirements are processed before the finalization of information needed to accurately calculate monthly pension benefits. In many instances, the best information available at processing time is used to calculate monthly benefits. Primary causes for using this information include the timing of the finalized monthly deduction amounts that school districts report to MTRS and pending service

purchases⁵ where service times have not yet been verified. MTRS chooses to pay estimated benefits to retirees when MTRS management deems it necessary to do so; once the necessary information is finalized, MTRS amends the monthly pension benefit amount and makes adjustments in initial calculations.

Certain types of retirements are more likely to be adjusted and are routinely reviewed to determine what adjustments may be required. This can happen because of the complexity of calculations. It occurs with Option B (annuity protection) retirements, where MTRS reduces the monthly benefit payments by 0.25% until accurate actuarial data are available. It also occurs with dual-membership retirements, governed by Section 3(8)(c) of Chapter 32 of the General Laws; in these cases, amounts may be due from other retirement systems but not readily determined. Adjustments to monthly benefits are processed by the Benefit Adjustment and Finalization Unit (BAFU), a subgroup within the MTRS Finance and Reporting Department.

As revised or new information for previously processed retirements is received or certain complex retirements are designated for review, adjustments in MyTRS are assigned to BAFU service representatives for processing. All adjustments are reviewed by the BAFU senior coordinator for accuracy and completeness after they are processed.

5. Service purchases are purchases of creditable service time by members for previous employment where annuity contributions have not been paid. Examples include municipal or Commonwealth employment, non-public school teaching, out-of-state public school teaching, and repurchased service time that was previously refunded.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

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 certain activities of the Massachusetts Teachers' Retirement System (MTRS) 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, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does MTRS 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. Does MTRS ensure that adjustments made to monthly benefit payments, as a result of changes to wage, service time, or annuity deposit data received after the initial payment of benefits, are completed accurately in accordance with Section 5(2) of Chapter 32 of the General Laws?	Yes
3. Does MTRS identify deceased retirees and beneficiaries promptly and ensure that benefit payments are subsequently adjusted or terminated accurately in accordance with Section 12(2) of Chapter 32 of the General Laws?	Yes

In addition, Finding 2 discusses monthly benefit payments that we found had been made to a member whose account contained an invalid Social Security number (SSN).

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

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

To determine whether MTRS processed first pension payments within the required timeframe, we performed the following procedures:

- MTRS gave us a list of all 4,907 new retirements with effective dates during our audit period from its benefit administration system, MyTRS. 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 split the population of new retirements during our audit period into two categories based on the number of days between the effective date of retirement and the date of the first pension payment.

Category	Days to Process First Payment	Population	Percentage of Total
Compliant*	62 days or less	3,689	75.2%
Noncompliant	More than 62 days	1,218	24.8%
Total		<u>4,907</u>	<u>100%</u>

* For audit testing purposes, we defined "compliant" as "processed within 62 days." By statute, the timeframe for compliance can range from 28 to 62 days depending on the day of the month a retirement is 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, a 0% expected error rate, and a 10% tolerable error rate, of 30 of the 3,689 "compliant" 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 selected a statistical, random sample for testing, with a 95% confidence level, a 0% expected error rate, and a 10% tolerable error rate, of 30 of the 1,218 "noncompliant" retirements. We evaluated 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 acknowledgment letters, salary request and release forms, benefit request sheets, data and annuity sheets, first pay letters, and MyTRS workflow reports) to identify any similar circumstances, common causes for delays, or other trends in the data that might have contributed to the delays.

To determine whether MTRS accurately processed adjustments made to monthly benefit payments, we performed the following procedures.

- MTRS gave us a list from MyTRS of all 1,068 retirements during the audit period that required adjustment after the issuance of the first benefit payment. We segmented the population based on the impact (increase, net zero, or decrease) and dollar value of the adjustments, as follows.

Impact of Adjustments	Dollar Range of Adjustments	Population	Percentage of Total
Increase in Benefit	\$0.04–\$2,451.78	552	51.7%
Net Zero Change in Benefit*	\$0.00	502	47.0%
Decrease in Benefit	\$4.58–\$1,531.32	14	1.3%
Total		<u>1,068</u>	<u>100%</u>

* Net zero adjustments are adjustments where the change in the monthly pension amount is completely offset by an equal and opposite adjustment to the monthly annuity amount. The net impact of such changes is \$0.

Size of Adjustments	Dollar Range of Adjustments	Population	Percentage of Total
Small	\$0.01–\$9.99	482	45.1%
Medium	\$10.00–\$99.99	364	34.1%
Large	\$100.00 or more	222	20.8%
Total		<u>1,068</u>	<u>100%</u>

- We selected a statistical, random sample for testing, with a 95% confidence level, a 0% expected error rate, and a 10% tolerable error rate, of 30 of the 1,068 adjustments. We also randomly selected a nonstatistical sample of 3 of the 14 adjustments with a decrease in monthly benefit payments for testing. Finally, we randomly selected a nonstatistical sample of 20 of the 222 adjustments with impacts of \$100 or more for testing. For each sample, we determined the reasons for the adjustments, calculated the lengths of time from dates of first pay to dates of adjustment, and verified the accuracy of the revised monthly benefit payments.

To determine whether MTRS promptly identified deceased retirees and beneficiaries and accurately adjusted or terminated benefit payments, we performed the following procedures:

- We obtained a system-generated list of all 3,105 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, a 0% expected error rate, and a 10% tolerable error rate, of 30 deceased benefit recipients and reviewed supporting documentation (such as retirement applications, death certificates, death notices, obituaries, and correspondence) to determine whether death certificates were on file; dates of death were promptly and accurately recorded in MyTRS; and appropriate actions were taken, including accurate and timely adjustments to benefit payments when necessary.
- From the population of 3,105 recorded deaths, we identified 7 that were not recorded in MyTRS until six months (180 days) or more after the dates of death. We tested all 7 deaths to determine whether any underlying reasons or irregularities existed that caused the delays.

- MTRS gave us a list of 3,192 possible deaths⁶ of MTRS retirees and Option C beneficiaries received during our audit period from its third-party vendor. We selected a statistical, random sample of 30 possible deaths, with a 95% confidence level, a 0% expected error rate, and a 10% tolerable error rate, and reviewed supporting documentation (such as payee lists provided to the third-party vendor, retirement applications, death certificates, death notices, obituaries, and correspondence) to determine whether the deaths were of MTRS members or beneficiaries; whether death certificates were on file; whether dates of death were promptly and accurately recorded in MyTRS; and whether appropriate actions were taken, including accurate and timely adjustments to benefit payments when necessary.

We used a combination of nonstatistical and statistical sampling methods for our audit objectives and did not project the sample results to any of the population.

Data Reliability

We assessed the reliability of the data obtained from MyTRS by interviewing agency officials who were knowledgeable about the data and testing the data for duplicate records and dates outside our audit period. We also verified the number of records in each data population (retirements, adjustments, and deaths) by comparing the total number of records to those in other data sources, such as monthly summary reports and pension warrants (lists of monthly benefit payments). In addition, we traced samples of records from each data population to and from original source documents, such as retirement applications, system-generated workflows, death certificates, death notices, and pension warrants, for completeness and accuracy. Further, we tested one automated application control related to the creation of workflows for certain adjustment activities in MyTRS. We also tested certain general information system controls over MyTRS. This included testing of system access controls related to the initial granting of access privileges to new hires and the revocation of access privileges for terminated employees.

As part of our assessment of the reliability of data pertaining to deceased retirees and beneficiaries ([Objective 3](#)), we found that monthly benefit payments were made to a member whose account contained an invalid SSN; as previously mentioned, this is discussed in [Finding 2](#).

We determined that the information obtained from MyTRS for our audit period was sufficiently reliable for our audit work.

6. MTRS periodically provides a third-party vendor with a copy of its entire retiree payee file, including designated joint survivors, to identify member and beneficiary deaths. The vendor cross-matches the information in this file with its death data to determine whether any MTRS benefit recipients or designated beneficiaries have died. The vendor's match produces a file of deceased individuals whose names and Social Security numbers closely match those of individuals in MTRS's retiree payee file. MTRS conducts additional research to determine whether the decedents are MTRS payees.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts Teachers' Retirement System did not always make initial benefit payments within the mandated timeframe.

The Massachusetts Teachers' Retirement System (MTRS) was delayed in issuing initial monthly benefit payments to retirees. Our analysis of the 4,907 retirees whose effective dates of retirement were during our audit period showed that 24.8% (1,218) did not receive their first monthly benefit payments within the required timeframe. The delays may have resulted in financial hardship for retirees.

For the 4,907 retirements included in our analysis and testing, retirement processing times ranged from 1 day to 1,064 days,⁷ as measured from dates of retirement to dates of initial payment. On average, the first payment took 55 days, which is within the state-mandated 62-day⁸ timeframe. However, the detailed substantive testing we performed on a random sample of 30 retirees with instances of noncompliance supports the processing delays identified by our analytical procedures, which indicated that the later an application was filed, the higher was the likelihood of noncompliance. Specifically, in the sample of 30 retirees with instances of noncompliance, we noted that 20 (66.7%) of the applications were received less than 31 days before the members' retirement dates or received after the retirement dates, and 10 (33.3%) of the applications were received 31 to 74 days before the retirement dates.

The detailed substantive testing examined documentation such as Part 1 of retirement applications (applicant retirement data), internal control sheets (internal checklists), application receipt acknowledgment letters, Part 2 of retirement applications (service, salary, and contribution data from employing school districts), support for benefit calculations, notices of estimated retirement benefits, first pay letters, and MyTRS 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

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7. The range of days is reduced from 1,064 days to 337 if disability retirements are excluded. Disability retirements usually take longer to process because of the potential for delays related to medical evaluations and lengthy appeal procedures.
 8. For audit testing purposes, we defined "compliant" as "processed within 62 days." By statute, the timeframe for compliance can range from 28 to 62 days depending on the day of the month a retirement is effective, as outlined in the "[Overview of Audited Entity](#)" section of this report under "[Retirement Application Process](#)."

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 after 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.

Reasons for Issue

According to MTRS management, the primary factor leading to delays in issuing first benefit payments relates to the number of days in advance an application is submitted. For all 4,907 retirements during the audit period, processing time averaged 55 days; however, when we reviewed how far in advance applications were received, we noted the following.

Days in Advance Applications Received	Number of Retirements	Average Number of Days to First Pay
Received 0 to 60 days before retirement date	1,508	97
Received 61 or more days before retirement date	3,399	36
Total Retirements	<u>4,907</u>	<u>55</u>

MTRS management also indicated that delays in the issuance of first benefit payments could be caused by retirees or employing school districts submitting inaccurate or incomplete information. Management indicated that when this happens, application processing slows or stops until accurate and complete information is received. MTRS 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.

Recommendation

MTRS should examine the benefit of redeploying existing resources toward processing retirement applications that are received 60 days or less before proposed retirement dates in an effort to achieve a higher percentage of "compliant" retirements.

Auditee's Response

The MTRS appreciates the Office of the State Auditor's (OSA) review of our retirement application processes and accepts the finding that 75% of our retirement applicants are paid within 62 days of their date of retirement. We continually strive to enhance our members' retirement experience, and will work to improve our processes where possible to pay more new retirees within the 62-day threshold while maintaining accuracy of benefit calculations. . . .

- Since we are the retirement system for teachers, we naturally have a spike in retirement applications at the end of each school year, when approximately two-thirds of our retirement applications are received. The staff who process retirement calculations must be highly trained, so we cannot redeploy other staff or hire temporary staff to address this seasonal high volume. Instead, as noted in your report, the MTRS retirement application, educational materials, videos and in-person seminars encourage members to apply for retirement three months in advance of their intended retirement date, so that our trained staff can begin working on the high volume of cases in advance, and provide our members with an accurate and timely benefit inception.*
- As you may have noticed during your analysis of our data, over 90% of members who file their applications three months in advance, receive their first benefit payment in their first full month of retirement.*
- The members who receive their first payment more than 62 days after their retirement date are typically those who file their applications very close to, or after, their retirement date. (Pursuant to M.G.L. c. 32, § 10[3], members are allowed to file their retirement applications as late as 60 days after their effective date of retirement.) We do not share your assumption that these members suffer a financial hardship. Most teachers receive their summer pay as a lump sum in June in the year they retire, which carries them for the months of July and August. As noted in your report, the average number of days to pay late filers their retroactive benefits is 97 days, so most of those members receive their first benefit payment in September, with the remainder in October. Finally, any retirement applicant who expresses financial need as a result of a delay is offered a pension advance payment, which is recouped from their first retroactive benefit payment.*

Auditor's Reply

The Office of the State Auditor (OSA) acknowledges that retirement application processing times can be affected by when members submit retirement applications, which MTRS cannot control. However, as noted above, during our audit period, 24% 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, indicating significant problems in this area that MTRS must address.

We recommended that MTRS, in an effort to achieve a higher percentage of "compliant" retirements, examine the benefit of redeploying existing resources toward processing retirement applications that are received 60 days or less in advance of proposed retirement dates. In its response, MTRS indicates that it cannot redeploy other personnel because of the extensive training necessary for staff members

who process retirement calculations. Although we believe our recommendation offered a reasonable means to minimize this problem, we acknowledge that it is ultimately up to MTRS management to determine what measures it can and should take to improve this process with its available resources.

In its response, MTRS states that it does not agree with OSA's assumption that delays in providing initial pension payments to retirees may have resulted in financial hardship for these retirees. MTRS states that most teachers receive their summer pay as a lump sum in June in the year they retire, which carries them for the months of July and August. However, not all teachers retire in June or receive their summer pay in a lump sum; most school districts allow teachers to choose how they will receive their summer pay. In any case, MTRS still needs to ensure that teachers receive their initial pension payments on time, as extended delays in providing initial pension payments can result in financial hardships for retirees.

MTRS indicates that it offers an advance benefit payment program to help soon-to-be retirees meet their financial needs while waiting to receive their retirement benefits. However, during our audit, we analyzed participation in this program and found that only 66 (1.3%) of the 4,907 new retirees in our population received advances.

Based on its response, MTRS is taking measures to address our concerns on this matter.

2. MTRS made approximately \$1,470 of monthly benefit payments to a member whose account contained an invalid Social Security number.

From August 2018 through May 2021, MTRS paid a total of approximately \$1,470 in monthly benefit payments (approximately \$40 per month) under an invalid Social Security number (SSN) to an individual who was entitled to receive a "minimum distribution"⁹ payment. As a result, the invalid SSN was reported to the Department of the Treasury's Internal Revenue Service (IRS) for tax purposes, and an incorrect Form 1099-R¹⁰ was issued to the member.

9. If state service is terminated but funds are left on account with MTRS, federal and state laws require retirees to take a mandatory minimum distribution of their retirement account when they turn 72 if they are not collecting a retirement benefit and are not employed under MTRS.

10. A Form 1099-R is an Internal Revenue Service tax form used to report retirement income received and federal income tax withheld.

Authoritative Guidance

According to the Internal Revenue Code, annuity and pension payments from MTRS are subject to federal income taxes. MTRS requires that payees complete a Form W-4P¹¹ for the purpose of determining tax withholding amounts. A Form W-4P requires a valid SSN.

Reasons for Issue

The incorrect SSN appears to have been entered in MyTRS as a placeholder or dummy SSN until a valid SSN was received from the benefit recipient. Once the actual SSN was received, the necessary update to the member's account with the accurate information was not completed. MTRS management could not explain why the account was not updated.

On July 30, 2021, MTRS gave us the following response as to why an incorrect SSN appears to have been entered in MyTRS as a placeholder or dummy SSN:

- During the 1970s and early 1980s, MTRS's recordkeeping systems were not computerized, and MTRS did not consistently collect or maintain SSNs. Instead, MTRS assigned a unique number to each member, stored it on an index card, and wrote it on all paper files pertaining to that member.
- When MTRS first began using a computer system in the 1980s, SSNs were not required. However, when MTRS updated to a new system in the 1990s, SSN became a required field.
- MTRS did not have SSNs in its records for members who still had funds on account with MTRS when it converted to the new system in the 1990s and whose last active employment was in the 1970s. To satisfy the validation requirements of the new system, MTRS chose to enter placeholder or dummy SSNs for these members, generated by combining an invalid SSN prefix (998) with each retiree's MTRS member number.
- When a member with a placeholder SSN, or such a member's survivor, applies for benefits, MTRS obtains the beneficiary's actual SSN, updates the account, pays benefits, and reports the payment to the IRS. MTRS retains the placeholder record for reference.

Recommendations

1. MTRS should correct the member's SSN in MyTRS and issue a corrected Form 1099-R to both the member and the IRS.
2. MTRS should ensure that all benefits are paid and reported to the IRS under the correct SSN.

11. A Form W-4P is an Internal Revenue Service tax form used by individuals who receive pensions, annuities, and certain other deferred compensation to tell payers what amount of federal income tax to withhold from their payments.

Auditee's Response

The MTRS agrees with the facts of the case referred to in this finding by the OSA. We have corrected the member's SSN in our system and issued corrected 1099-Rs to both the member and the IRS. Going forward, as a control on this manual process, the MTRS Application and Database Services department has queried our data and determined that no other disbursements have been made under an invalid SSN during or after the audit period. In addition, they have added that query to the list of data and scenarios that are reviewed by our 1099-R preparation team prior to the annual issuance of 1099-Rs.

Auditor's Reply

Based on its response, MTRS is taking measures to address our concerns on this matter.

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 3% 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 9% to 11% less per month than Option A. Upon a member's death, the designated beneficiary is paid a monthly benefit for the rest of his/her lifetime.