

Options on Retirement & Beneficiary Selection



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All Important Disclaimer Slide

- Scenarios set out in this presentation are intended to highlight certain issues which may arise in the option and beneficiary selection processes. If the scenarios appear to relate to any member of a public pension system in Massachusetts, either living or dead, this is purely coincidental.

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Another Equally Important Disclaimer Slide

- The choices a member makes in their beneficiary selection or in selecting an option on retirement are the member's alone. Armed with the most complete information available from retirement system, they have to make the choice best for them.
- Exercises presented in this presentation invite participants to consider the pros and cons of each option or beneficiary selected, but ultimately the member will be the one deciding what is best for his or her family. We will each make our own decisions in due course.

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NOTES:



The Foregoing Slides Put Another Way

- Scenarios = Made Up
- Choice = Member's
- Board = Provides information
- Member = The Boss
- Consequences = Foreseen/Unforeseen

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What is an “Option”?

- For Chapter 32 purposes, an option is the way a public employee chooses to take his or her retirement allowance.
- Your years of service, your age, your beneficiary's age and your *option* will determine how your retirement allowance will be paid out each month.

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NOTES:



Citation for the “Options”

Each conveniently located at Massachusetts General Laws, Chapter 32, Section 12:

- Option A – G.L. c. 32, Section 12(2)(a)
- Option B – G.L. c. 32, Section 12(2)(b)
- Option C – G.L. c. 32, Section 12(2)(c)
- Option D – G.L. c. 32, Section 12(2)(d)

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Options Are Actuarially Equivalent

- At the time of the member’s retirement, the benefits under all 3 options are determined to be actuarially equivalent.
 - This means the benefits paid under each option have the same actuarial present value on the member’s date of retirement.
 - This means the member is indifferent as to the option selected at the time of retirement.

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NOTES:



The Options in a Nutshell: Upon the Death of a Member

- **Option A:** There is no beneficiary. Remainder of what was due retiree for month of his or her death is disbursed to person or persons listed on form.
- **Option B:** Amounts, if any, remaining in annuity account on the death of retiree, will be disbursed to beneficiary or beneficiaries of record.
- **Option C:** Provides for an allowance for the lifetime of one certain, statutorily acceptable, beneficiary following the death of a member.
- **Option D:** Provides for an allowance for the lifetime of one certain, statutorily acceptable, beneficiary if a member dies prior to retirement having nominated the beneficiary or if an eligible spouse elects.

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Options in a Smaller Nutshell After the Death of a Member

- Option A = Nothing left behind.
- Option B = Remainder in account.
- Option C = Beneficiary allowance for life.
- Option D = Least desirable of the options.

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NOTES:



The Options In A Nutshell: While The Member Is Still Living, What Is The Effect On The Member?

- **Option A:** Member gets the maximum retirement allowance provided for by our law.
- **Option B:** Member gets a slightly reduced (approximately 1% to 5%) retirement allowance.
- **Option C:** Member's allowance is reduced (approximately 7% to 15%) and the amount of reduction depends upon the difference in the ages of the member and the beneficiary.
- **Option D:** The Member doesn't suffer any financial consequences by nominating an Option D beneficiary.

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Options in a Smaller Nutshell: Before the Death of a Member

- Option A: Life is good.
- Option B: Life is slightly less good.
- Option C: Allowance member receives somewhat/quite reduced.
- Option D: Member doesn't feel a thing.

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NOTES:



Zoom In On: Option A

- Gets the largest possible retirement allowance, known as “Life Annuity.”
- Upon a member’s death, no money payable to anyone except:
 - If he or she dies on the 16th of September, for example, the person or persons listed on his option selection form will be due 16 days of retirement allowance.

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Zoom In On: Option B

- Selected by retiree or assigned by default.
- Option B provides a lifetime allowance that is approximately 1% to 5% less per month than Option A.
- The member’s annuity account is gradually depleted by an amount equal to the annuity portion of his or her retirement allowance.
- Usually, the annuity account will be depleted about 12 years after retirement, but member still gets full allowance after depletion.
- Upon member’s death, beneficiary gets whatever amount is remaining in the annuity account, if anything.
- A somewhat unusual option compared to what other public pension systems offer.

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NOTES:



Who May Be Designated As An Option B Beneficiary?

- Any person or entity
- More than one person or entity may be designated.
 - For example, “50% to Luke McGlue and 50% to the Boy Scouts of America”
- The Option B beneficiary may be changed by the member at any point prior to death.

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Zoom In On: Option C

- A/k/a “the joint and last survivor allowance”
- Allowance will be approximately 7% to 15% less than that which a person would receive under Option A.
- Upon the retiree’s death the beneficiary will be paid a monthly allowance for life.
- Amount of initial benefit depends on the life expectancies of member and beneficiary.
- Benefit paid to children if surviving spouse recipient dies. (Must be children of the spouse and the member, must be under the age of 18).
- If beneficiary pre-deceases member, there will be a “pop up.”

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NOTES:



Possible Option C Beneficiaries

- Spouse
- Parent
- Former Spouse who has not remarried
- Sibling
- Child

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Option C Pop-Up

- No new beneficiary is selected.
- Member's allowance "pops up" to Option A.
- Member paid as if receiving an Option A from date of death of beneficiary to the day he or she dies.
- **January 12, 1988: An Important Date**

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NOTES:



Other Facts About Option Selection

- An option, once selected, may not be changed following the date the retirement allowance becomes effective.
- A married member's spouse must acknowledge the selection of option, but has no power to disapprove it.
- Although the option may not be changed post-retirement, Option B retirees do get to change their beneficiaries if they so desire.
- If a retiree selects either Option A or Option C, the amounts in the annuity account are not distributed upon the death of the retiree.

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Zoom In On: Option D

- The "Member Survivor Allowance"
- Allowance will be what the deceased member would have received if he or she had retired on the date of death, or, if younger, at age 55 (or 60) and had elected Option C.
- Option D benefit paid to guardian on behalf of minor children if surviving spouse recipient dies.
- If nominated beneficiary pre-deceases the member, the member **may wish** to pick a new beneficiary.

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NOTES:



The Similarities Between Options C and D

- Each provides a lifetime retirement allowance to a certain, named beneficiary.
- Only one beneficiary may be named.
- Beneficiary may be spouse, former spouse who has not remarried, mother, father, brother, sister or child.
- Amount of benefit depends upon the life expectancies of both the member and beneficiary.

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The Differences

Option C	Option D
• Payable on the death of a retiree.	• Payable on the death of a member prior to retirement.
• Pays 2/3rds of the amount the member was receiving as a retirement allowance.	• Pays what the member would have received under Option C.
• Eligibility of beneficiary determined at option selection.	• Beneficiary may be selected by member, but a subsequent spouse may defeat a named Option D beneficiary.
• Beneficiary selected by member.	

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NOTES:



The Minimum Allowance Under Option D

- Allows for a minimum allowance of either \$250 or \$500 per month, depending upon whether a local option has been adopted.
- Acceptance occurs upon filing with PERAC.
- For members of the State and Teachers Retirement Systems, the minimum allowance increased to \$500 per month on April 2, 2012.
- Available only to the surviving spouse of an active member.
- See PERAC Memorandum #14/2012.

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Option D Beneficiaries: Selected or Elected

- A member designates an Option D beneficiary on a prescribed form.
- Only one beneficiary may be named, and only a spouse, child, former spouse who has not remarried, mother, father, brother or sister is eligible for designation.

OR

- An eligible spouse makes the election after the member's death.

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NOTES:



Spousal Election of an Option D Benefit

- The member must have completed at *least two years of creditable service*.
- The member and spouse must have been *married for at least one year*.
- The member and spouse must have been *living together* at the time of the member's death.
- If they were not living together at the time of the member's death, the board must find that they *were living apart for justifiable cause*, other than desertion or moral turpitude on the part of the applying spouse.

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Option D: If a Spouse Does Not Elect

- If the member had not named another individual as his/her Option D beneficiary, the member's accumulated deductions would be paid to the surviving Section 11 beneficiaries of record, or, if there are none, to the member's surviving spouse in one sum.
- If the member had named another individual as his/her Option D beneficiary, that individual would receive a lifetime allowance (instead of a lump sum payment being made to the surviving beneficiaries of record.)

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NOTES:



Calculating Option D For Those Who Were Members Before 4/2/12

- Provides beneficiary with the allowance the member would have received under Option C had they not died and instead had retired on the date of their death. If under age 55 at death, the age of the deceased will be “bumped up” to 55 to calculate the allowance.
- Beneficiary age “bumped up” an equal amount.

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Calculating **Option D** Benefits For the “On Or After” Set

- Group 1: As if the person retired at age 60, with a 1.45% age factor
- Group 2: As if the person retired at age 55, with a 1.45% age factor.
- Group 4: As if the person retired at age 55, with a 2.2% age factor.

***Caveat:** Different age factors will be employed after 30 years of service*

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NOTES:



Benefits Payable To Children

- When an Option D allowance is paid, Section 12B gives an additional allowance for a member's minor children:
 - \$120.00 per month to the oldest child
 - \$90.00 per month to each additional child
 - Payable to a guardian



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Section 12B

- Sometimes there is no spouse.
- In that event, any minor children would divide the Option D Member Survivor Allowance amongst them, and the 12B allowance would still be payable.
- Benefit payable to a guardian.
- This benefit ends as described in this section.



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NOTES:



The 12B Benefit Ends for a Child...

- Upon his or her adoption.
- Upon reaching age 18.
- Upon reaching age 22 if a full-time student.
- Upon his or her marriage.
- Upon his or her death.

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Inactive Members

- An Option D allowance may be available to a beneficiary of an inactive member,
HOWEVER:
- No benefit for children is available under Section 12B.
- No eligibility for the “minimum allowance.”

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NOTES:



Spotlighted Member 1

- Member name: Juliet Keating
- Group: 1
- Creditable Service: 23 years, 3 months
- Member age: 50
- Marital Status: Single
- Member's Children: Maureen Keating (22), Timothy Patrick Keating (22), Hope Keating (19)

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Other Family Members

- Juliet's other family members include but are not limited to the following:
 - Her father, Timothy Gerard Keating.
 - Her sister and next door neighbor, Maureen Keating Kelliher.
 - Her brother, Timothy Harrison Keating.
 - Her nephew, Timothy Peter Keating.

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NOTES:



Juliet is Considering:

- Changing her Option D selection from her sister Maureen (age 48) to her daughter Hope (age 19).
- Changing her Section 11(2)(c) return of accumulated deductions beneficiaries from her daughters Maureen and Hope and her son Timothy to her son Timothy, her daughter Maureen, and her sister Maureen.

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Crunching Juliet's Numbers

Maureen as Option D Beneficiary	Hope as Option D Beneficiary
• Option A (@ age 55) = $(.015)(23.25)(\text{FAS-3}) = 34.875\%$ (FAS-3)	• Option A (@ age 55) = $(.015)(23.25)(\text{FAS-3}) = 34.875\%$ (FAS-3)
• Actual Ages 50/48	• Actual Ages 50/19
• Adjusted Ages 55/53 • Option C Factor = .9295	• Adjusted Ages 55/24 • Option C Factor = .8754
• Option D Benefit = $(.9295)(34.875\%)(\text{FAS-3}) = 32.416\%$ (FAS-3)	• Option D Benefit = $(.8754)(34.875\%)(\text{FAS-3}) = 30.530\%$ (FAS-3)

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NOTES:



If You Were Juliet...

- What would you do?
 - a) Chose daughter Hope as Option D beneficiary.
 - b) Keep sister Maureen as Option D beneficiary.
 - c) Choose son Timothy as Option D beneficiary.
 - d) Choose no Option D beneficiary; just split the annuity account between the 3 kids.

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Practicalities Involving Filling Out Forms

- Juliet is quarantining with:
 - Her father, Timothy Keating
 - Her children, including:
 - Timothy Keating
 - Maureen Keating and
 - Hope Keating

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NOTES:



Witnessing a Beneficiary Form

- **State Board of Retirement:** “A form that is witnessed by the Option D beneficiary will be invalid.” “The person designated as beneficiary cannot be a witness to your signature.”
- **PERAC’s forms:** “When you sign this form, it should be witnessed by a disinterested party.”

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Juliet’s Dilemma

Who Can Witness the Section 11(2)(c) Form?	Who Can Witness the Option D Form?
• Timothy Gerard?	• Timothy Gerard?
• Hope?	• Timothy Patrick?
	• Maureen the daughter?

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NOTES:



The (Relatively) New Forms

- Old forms: Option D, Section 11(2)(c) together.
- New forms: Separate.
- Same beneficiary for both:
 - Pointless

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New Form in the Works

- Election/Selection of Section 12(2)(d)
- Original Form = False choice.
- Option D Beneficiary = An offer they can't refuse.
- Spouse included.
- Return of deductions separate.

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NOTES:



Spotlighted Member No. 2

- Member name: Darren McInerney
- Group: 1
- Creditable Service: 31 years, 5 months
- Age: 70
- Marital Status: Widower
- Children: Jacintha McInerney (Age 29)

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Darren Wants To...

- Do everything he can to assure Jacintha's future financial stability.
- Since his wife's passing, he has wondered about the feasibility of naming Jacintha as his Option D beneficiary.
- As he hurtles toward retirement, he is also wondering if he should name Jacintha as his Option C beneficiary.

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NOTES:



Crunching Darren's numbers

Jacintha as Option C Beneficiary	Jacintha as Option D Beneficiary
<ul style="list-style-type: none"> Option A = $(.025)(31.4167)(FAS-3) = 78.542\%$ (FAS-3) Actual Ages 70/29 Option C Factor = .7025 Darren's Option C = $(.7025)(78.542\%)(FAS-3) = 55.176\%$ (FAS-3) Jacintha's Option C = $2/3 (55.176\%)(FAS-3) = 36.784\%$ (FAS-3) 	<ul style="list-style-type: none"> Option A = $(.025)(31.4167)(FAS-3) = 78.542\%$ (FAS-3) Actual Ages 70/29 Option C Factor = .7025 Jacintha's Option D = $(.7025)(78.542\%)(FAS-3) = 55.176\%$ (FAS-3) No Reduction Upon Father's Death

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POLL



If You Were Darren...

- What would you do?
 - a) Chose Jacintha as his Option C beneficiary.
 - b) Chose Jacintha as his Option D beneficiary.
 - c) Chose Jacintha as both the Option C and Option D beneficiary.
 - d) Chose neither Option C nor Option D: Jacintha is a grown woman; she can take care of herself!

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NOTES:



Spotlighted Member 3

- Member Name: Olivia Beekman
- Group: 1
- Creditable service: 14 years, 7 months
- Age: 64
- Marital Status: Married
- Spouse: Oliver Beekman (age 68)
- Children: None

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Crunching Olivia's Numbers...

Olivia Picks Option A	Olivia Picks Option C
• Option A = $(.024)(14.5833)(\text{FAS-3}) = 35\% (\text{FAS-3})$	• Option A = $(.024)(14.5833)(\text{FAS-3}) = 35\% (\text{FAS-3})$
	• Actual Ages 64/68 • Option C Factors = .9098
	• Option C = $(.9098)(35\%)(\text{FAS-3}) = 31.843\% (\text{FAS-3})$

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NOTES:



If You Were Olivia, What Would You Do?

- What else would you like to know before reaching your decision?
 - Length of marriage?
 - Health issues of either Olivia or Oliver?
 - Oliver's other income?
 - Olivia's other income?
 - All of the above?

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POLL



Now That You Know...

- What should Olivia do?
 - a) Pick Option A
 - b) Pick Option B, with Oliver as the beneficiary.
 - c) Pick Option B, with her nieces as the beneficiaries.
 - d) Pick Option C, with Oliver as the beneficiary.

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NOTES:



Spotlighted Member 4

- Name: Jack Sprat
- Retired: Under the provisions of the Lung Law. (He has COPD).
- Retirement date: August 5, 2016.
- His 30 year marriage to Lenora Sprat ended with divorce.
- A DRO on file provides that Jack must pick Option C, and must pick Lenora as his Option C beneficiary.
- The DRO further provides that if Jack goes out on accidental disability retirement, Lenora will get 50% of the benefit.

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Death Benefits

- Jack finds love again.
- With their grown children looking on, Jack marries Capricia in a beautiful yet subdued ceremony.
- Jack and Capricia are euphorically happy during their short marriage.
- Jack dies of complications of COPD two days after their second wedding anniversary.
- Capricia comes to the retirement office to ask for her pension.

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NOTES:



To What Will Lenora and Capricia Be Entitled?

Lenora	Capricia
• 2/3 of his full Option C Benefit.	• Difference between Section 9 (Accidental Death Benefit) and Lenora's benefit.

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Chapter 77 of the Acts of 2016

- Applicable to benefits effective on or after July 1, 2016.
- Must have a DRO in place.
- DRO must require former spouse be named Option C beneficiary.
- Current spouse must be eligible for a Section 9.
- Former spouse: Option C benefit
- Current spouse: Difference between Section 9 and Option C benefit.
- PERAC Memo #16/2016.

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NOTES:



Ode to Irene Triplett

- Last person receiving a benefit on account of her father's service in the United States Civil War.
- Died on May 31, 2020.
- Civil War ended in 1865.
- This benefit (first to the father, then to the child) spanned three centuries.
- How close could Chapter 32 get to replicating this?

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Pension Liability Length: Chapter 32 Style

- **An Unlikely But Possible Example:**
 - Member retires for Accidental Disability at age 20
 - Marries a 20-year old spouse at age 70
 - Has permanently disabled child at age 72
 - Member dies at age 90 from same disabling cause
 - Spouse begins to collect Section 9 benefit at age 40
 - Spouse dies at age 90
 - Dependent child dies at age 90
 - Benefit would have been paid for **142 YEARS!!!**
 - 70 years to member, 50 years to spouse, 22 years to child

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NOTES:



Conclusion

- There is nothing more important in a presentation than the conclusion slide.
- There is no more important decision a member makes than what option to pick at retirement.
- Lots of factors are within the member's control, and lots are not within his or her control.
- Information and knowledge, as provided by our laws and the retirement system, are key to any informed decision.

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NOTES:

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