



**Massachusetts Bay
Transportation Authority**

Pension Update Open Session

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Pension Overview

- The MBTA Retirement Fund was established as a private trust in 1948 to provide a defined benefit retirement plan governed by the Pension Agreement between the MBTA and the Carmen’s Union, Local 589.
- As such this plan does not fall under ERISA or MGL chapter 32.
- The terms of agreement governing the MBTA Retirement Fund are set through negotiations between the Authority and its largest union, Local 589 (the “Pension Agreement”).
- Benefit levels under the Pension Agreement are calculated on the basis of 2.46% of the average of an employee’s highest three years of compensation multiplied by their number of years of service, with a maximum annual benefit of 75% of that highest three-year average.
- Employer Contributions for FY 2023 are set at 25.82%
- Employee Contributions for FY 2023 are set at 9.33%
- The fund registered above average returns closing the 2021 year with a funding ratio of 57.6% with \$1.3B in unfunded liability



Current Benefits

Eligibility for benefits is based on age and years of service, as described below. Critically, however, there is no “vesting” provision within the Pension Agreement, meaning that employees who do not reach the eligibility thresholds receive no benefit, just a return of their deducted contributions.

- Normal Retirement: Employees are eligible for a “normal retirement” beginning at age 65, regardless of years of service; however, there is no mandatory retirement.
- Early Normal Retirement: There are functionally two tiers of early retirement eligibility to allow employees to retire before reaching the normal retirement threshold.

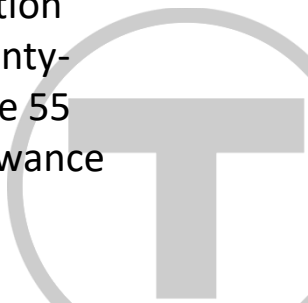
The retirement fund currently provides two (2) tiers of benefits based on an employee's entry date into service at the Authority:

Hired Prior to December 6, 2012 (Tier 1)

- Normal Retirement Age is 65 years of age
- Maximum Benefit is not to exceed 75% of an employees average highest 3 years of compensation
- Any employee in service who has completed at least twenty-three (23) years of creditable service may be retired by the Retirement Board on an early normal retirement allowance regardless of age

Hired Post December 6, 2012 (Tier 2)

- Normal Retirement Age is 65 years of age
- Maximum Benefit is not to exceed 75% of an employees average highest 3 years of compensation
- Employees are required to complete at least twenty-five (25) years of creditable service and attain age 55 to be eligible for an early normal retirement allowance



Arbitration Award

The Arbitration Award mandated three primary changes to the Pension Agreement; 1) a reduction of benefits; 2) cost of living increase to retirees, and 3) cap on the earnings limit for contributions for the benefit calculation.

Benefit Reduction

Any employee receiving a pension before age 65 will have their pension amount permanently reduced by 6% per year of retirement before age 65. As a matter of interpretation, the Authority and Union agreed in writing that this benefit reduction would not impact those that were within 5 years of retirement eligibility. As a result, this has functionally created a third tier of retirement eligibility among Authority employees: 1) those still falling under the old 23 and out eligibility with no reduction as a result of the Arbitration Award; 2) those falling under the 23 and out eligibility impacted by the Arbitration Award; 3) those falling under the 25 and 55 eligibility who are also impacted by the Arbitration Award.

Cost of Living Adjustment

The arbitrator provided a Cost-of-Living Adjustment (COLA) awarding 3% increase to all current pensioners in effect as of June 30, 2018, retroactive to July 1, 2018.

Compensation Cap

Finally, the arbitration award placed a cap on compensation that can be taken into account for an employee's pension at \$150,000 per year.



Tentative Pension Agreement

- The interest arbitration award of August 26, 2022, shall be set aside, vacated, and of no further effect
- Increased the retirement benefit maximum from 75% to 80% for those hired prior to “date of this Agreement”
- The benefit structure for active employees shall be maintained
- Creation of a new benefit structure for employees that models the Commonwealth Group 2 Benefit for future hires
 - Based on 2.46% multiplier
 - Based on 3-Year average Earnings
 - 10-year vesting
- Notwithstanding the current requirements, employee contribution shall be increased by 1.25% percentage points above the otherwise required employee contribution for duration of agreement:
 - Commencing July 1, 2023, and ceasing no sooner than June 30, 2028
- Transfer 50% percent of all MBTARF assets to in the Massachusetts Pension Reserves Investment Trust (PRIT) as soon as practical
- Should the Authority’s required share of contributions be higher than 25.8161%, the Authority shall pay that required amount, until the unfunded liability of the plan is less than 20%.
- Supplemental Retiree Workforce Side Letter (Up to 125 Retirees at Authority’s discretion)
- the parties agree to instruct their respective appointed fiduciaries to the Retirement Board to select an Honorary Board Member no later than June 30, 2023
- A retiree COLA on the first \$13,000 of all allowances under the plan in effect on June 30, 2018, shall be increased by 3% a percentage amount ranging from 1% to 5% depending on date of retirement on the first \$13,000 of said allowance. The total cost of the adjustment shall not exceed that of a 3% increase for all allowances on the first \$13,000 of all allowances
- Retroactive pension contribution calculation based on the required contribution rates in effect at the time the retroactive payment is processed



Retirement Benefit Plan For New Hires

Effective April 30, 2023

- Benefit proposal similar to the Commonwealth Group 2 Plan structure
- Any member with at least 10 years of creditable service, having reached the age of 55, and remaining an employee of the Authority shall be eligible to retire.
- The normal annual retirement allowance shall consist of the below enumerated percentage based upon the member's age at the time of retirement multiplied by the average compensation in those three (3) years in which the employee had maximum compensation multiplied by the number of years of membership service, provided, however, that such allowance shall not exceed eighty percent (80%) of such average compensation.
- A member who has completed 10 or more years of creditable service and who terminates their service with the Authority prior to becoming eligible for a normal retirement allowance in accordance with paragraph (1), above, shall be fully vested in a deferred retirement allowance which shall begin in the month following the member attaining 65 years of age.

Age at Retirement	Percentage
61 or over	2.460
60	2.375
59	2.250
58	2.125
57	2.000
56	1.875
55	1.750



Asset Investment Transfer to PRIT

- The parties agree to instruct their respective appointed fiduciaries to the Retirement Board to vote, as soon as practicable, to transfer 50% of all Fund assets to the Massachusetts Pension Reserves Investment Trust (PRIT) managed by the Pension Reserves Investment Management Board (PRIM).
- Such transfer of increased Fund to assets to PRIT must be accomplished within five (5) years of the date of this Agreement.
- The Fund will reduce its cost basis for asset management by diverting 50% of funds:
 - Fund to save more than \$850K in management fees annually
 - Net Present Value of saving 13.7 basis points per year over 30 years nearly \$10.4M
 - Fund to save on fees paid to managers plus & fees deducted by managers from Net Actual Value of alternate investments about \$600K annually
 - Net Present Value of saving 10 basis points per year over 30 years nearly \$7.4M



*Net Present Value calculated over 30 years at 7.25% discount rate of MBTARF



Arbitration Cost Comparison to Tentative Agreement

- The arbitration achieved an annual savings of \$5.6M split 75/25 between the Authority and Employees
- The cost to maintain lost benefit structure, required an increase of 1.20% in contributions
- The cost of implement a reduced Cost of Living Adjustment for Retirees required an increase in contributions of .33%
- The cost to increase the maximum retirement benefit from 75% to 80% required an increase in contributions of .23 %
- The total cost to update the benefit package is 1.76%
- The Union agreed to increase employee contribution by 1.25% above the required amount
- The Authority has cost savings short fall of .51%
- The Authority has reduced the actuarial estimated cost savings from \$5.6M per year to \$2.5M, however, the MBTA will achieve additional savings from the PRIT transfer and is also benefiting from the employee attraction & retention efforts embedded in the new terms

Fiscal Year	MBTA Proposed Increase ²	Tentative Agreement Increase 3/2	Shortfall 3/2 MBTA (%)	Projected Payroll ¹	Shortfall 3/2 v MBTA (\$million)
2024	1.76%	1.25%	0.51%	487	2
2025	1.76%	1.25%	0.51%	500	3
2026	1.76%	1.25%	0.51%	514	3
2027	1.76%	1.25%	0.51%	528	3
2028	1.76%	1.25%	0.51%	543	3
Five Year Total	1.76%	1.25%	0.51%	2,572	13
Five Year Average	1.76%	1.25%	0.51%	514	3
2029 and beyond	1.50%	TBD	Up to 1.50%	552 +	Up to 8+

¹ FY payroll projections (in millions)based on CY2021 payroll of \$455m increased with inflation assumption of 2.75%. See 12/31/2021 MBTARF Actuarial Valuation Report pages 11 and 22.

² Based on attaining 70% funded 12/31/29 and 75% 12/31/32.



Vote Language

IT IS VOTED:

That the Chief Administrative Officer is hereby authorized to enter into a Pension Agreement with Carmen’s Union Local 589 for the term from July 1, 2018, to June 30, 2028, and to execute any necessary or ancillary documents in the name and on behalf of the Massachusetts Bay Transportation Authority to effectuate this Agreement.

