OFFICE OF THE COMPTROLLER
ONE ASHBURTON PLACE, 9TH FLOOR
BOSTON, MASSACHUSETTS 02108
(617) 727-5000
MACOMPTROLLER.ORG

Retirement Programs Policy

Effective: July 1, 2004
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Executive Summary

Retirement Plans

The Commonwealth of Massachusetts requires that all employees both state and contract enroll in a qualified retirement plan. The State Board of Retirement administers the State Employees' Retirement System ("SERS"). Membership in the system is mandatory for nearly all state employees who are regularly employed part-time (18.75 hours a week) or greater. In addition to the "SERS, the Board of Higher Education has an Optional Retirement Plan ("ORP") for its members in accordance with section 401(a) of the Internal Revenue Code. Contract employees and those who do not meet the membership criteria of either of these programs are required to enroll in the Alternate Retirement Plan (OBRA). Commonwealth retirees do not contribute to any Commonwealth Retirement Plan.

Under M.G.L. c. 62 and M.G.L. c. 62B, the first $2,000 of combined Retirement and Medicare Withholdings is pre-tax for State Withholding purposes. **There is no State withholding tax on first $2,000**.

Considerations

Retirement Programs

- The State Employees' Retirement System is administered by the State Board of Retirement. The Board of Higher Education's Optional Retirement Plan is administered by the Department of Higher Education. The Alternate Retirement Plan is administered by the Deferred Compensation Unit at the Office of the State Treasurer.

Each of these programs is offered to Commonwealth employees based on eligibility.

- Are available through an employee's payroll office;
- Are deducted in every biweekly pay period;
- Are deducted on a mandatory pre-tax basis; and
- Requires that employees complete the applicable Enrollment Forms.

This policy applies to all Commonwealth Branches and Departments.

Policy

State Employees' Retirement System

An employee's date of hire and rate of pay determine the percentage rate of the biweekly retirement deduction.

State Retirement Board Employee Contribution Rates

- Hired before January 1, 1975 5%
- Hired on or between January 1, 1975 - December 31, 1983 7%
- Hired on or between January 1, 1984 – June 30, 1996 8%
- Hired on or after July 1, 1996 – present 9%
- State Police hired on or after July 1, 1996 – present 12%

For those employees hired on or after January 1, 1979 to the present, an additional 2% is deducted for retirement on the amount of the employee's salary that exceeds $30,000. The judiciary has other additional percentage contribution rates, and salary thresholds, for some members.

For those employees hired and who become members of the State Employees' Retirement System after January 1, 2011 there is a cap on the amount that will be considered "regular compensation" for contributions and for calculation of the retirement allowances. The amount of regular compensation subject to Retirement is capped at 64% of the Federal Limit under U.S.C. 401(a)(17). The U.S.C. 401(a)(17) limit at the time of implementation was $245,000. The 2011 calendar year limit on regular compensation under G.L. c.32 for persons who became members after January 1, 2011 is $156,800. Please refer to Comptroller Fiscal Year Updates to determine any future change in the cap.

Board of Higher Education Optional Retirement Plan

The Board of Higher Education Optional Retirement Plan "(ORP") is a defined contribution plan where contributions made by the employee and the Commonwealth are invested in custodial accounts or retirement annuity contracts offered by providers which have been approved by the Higher Education Coordinating Council. Only limited positions are eligible to participate in this program, as an alternative to the SERS. This plan is only available to faculty and senior administration employees.

Board of Higher Education Optional Retirement Plan Rates

- Hired before July 1, 1996 8%
- Hired on or after July 1, 1996 – present 9%

An additional 2% is deducted for retirement on the amount of the employee's salary that exceeds $30,000.

The amount of annuity income received at retirement will depend on the amount contributed to the retirement annuity contracts, the investment experience of those funds, the employee's age at the time they begin receiving benefits, and the form of annuity payment that was chosen.

Alternate Retirement Plan (OBRA)

The IRS has issued regulations regarding retirement coverage for public employees (both state and contract) who are not members of a state retirement plan. The Omnibus Budget Reconciliation Act of 1990 (OBRA) regulation mandates that such public employees participate in an alternate retirement plan after July 1, 1991.

The definitions of types of employees required to contribute to the Alternate Retirement plan include employees who normally work 18.75 hours or less per week; employees who work on a full-time basis for less than 5 months in a year; and employees performing services for the employer pursuant to a

contract of less than 2 years in duration. An employee must contribute 7.5% to this plan. Additional Discretionary employee deferrals to OBRA are permitted.

The following employees are exempt from coverage, and therefore are not required to contribute to OBRA:

- Individuals hired through programs to relieve unemployment;
- Patients or inmates providing services in a hospital, home or institution;
- Individuals hired on a temporary basis in case of fire, storm, snow, earthquake, flood or other similar emergency;
- Election officials or election workers paid less than $1000 per calendar year;
- Employees of the Commonwealth who are members of the State Retirement System and also work part-time on contract;
- Employees of the Commonwealth who are over age 70, who are inactive members of the State Retirement System and who have elected not to continue to make retirement contributions; and
- Persons who have retired from the Commonwealth and are receiving compensation from the Commonwealth for services performed after retirement.

In addition to the above-listed exceptions, prior exceptions for certain students employed in public schools, colleges and universities remain in effect. Departments should refer to the Office of the Comptroller's Fiscal Year Memos, and the OBRA Information Kit provided by the Deferred Compensation vendor for further guidance regarding compliance with OBRA provisions.

OBRA is considered a deferred compensation plan for tax purposes. The IRS sets annual limits for employees who contribute to deferred compensation plans. Please refer to the current tax year IRS Publication 575 “Pension and Annuity Income” for more detailed guidance as to the annual limits.

Catch-Up Provisions for Alternate Retirement

If an employee is within three years of his or her normal retirement age, the employee may use the Special Catch-Up provision that allows him or her to defer an additional amount. This catch-up provision may only be used once during plan participation. If an employee is age 50 or older during the calendar year, the employee may also defer an additional amount. Please see the most recent Fiscal Year memos on tax changes.

Make-up Retirement for State Employee’s Retirement System

State employees may buy back any prior public service to the Commonwealth that was refunded or public service to the Commonwealth that was provided but which did not have retirement contributions withheld.

Additional Pre-tax Salary Deferral Contributions

An employee may make additional pre-tax salary deferral contributions under either the Tax Deferred Savings (i.e., 403(b) plan) or Deferred Compensation (i.e., 457(b) plan) policies.

Information Sources

Legal Authority

- IRS Publication 575, "Pension and Annuity Income"
- IRS Revenue Ruling 73-607, 26 CFR 1.403(b)-1 "Taxation of Employee Annuities"
- The Commonwealth of Massachusetts Higher Education Coordinating Council Optional
- M.G.L. c. 7A §§ 3, 7, 8
- M.G.L. c. 15 § 18A
- M.G.L. c. 29 § 64
- M.G.L. c. 29 § 64A
- M.G.L. c. 29 § 64D
- M.G.L. c. 32
- M.G.L. c. 62 §§ 1, 3
- M.G.L. c. 62B § 2
- Department of Revenue Instructions to Massachusetts Withholding Circular M

Related Policies

- CTR Deferred Compensation Policy
- CTR Tax Deferred Savings Plans under IRC Section 403(b) Policy

HR/CMS Job Aids and Resource Documents

- Assign Pension Plans
- Create General Deduction – Make Up Retirement
- Setup OBRA Enrollment

Links

- Retirement Program Brochure
- Plan Sponsor Information Guide, Great-West Retirement Services

Contact

- CTR Solution Desk