

House, No. 5058

House Docket, No. 5339 – October 21, 2010

Communication from the Public Employee Retirement Administration (under Section 50 of Chapter 7 of the General Laws) submitting rules and regulations governing retirement of public employees in the Commonwealth (House, No. 5058).

H.R., October 25, 2010

Referred to the committee on PUBLIC SERVICE.

Sent to the Senate for concurrence.

, Clerk.



SENATE

OCT 23 2010

THE SENATE CONCURS.
Clerk.

No further action taken

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, Chairman | A. JOSEPH DI NUCCI, Vice Chairman

JOSEPH E. CONNARTON, Executive Director

PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. MCCARTHY | GREGORY R. MENNIS

October 21, 2010

HD 5339
H. 5058

Steven James, Clerk
House of Representatives
State House, Room 145
Boston, MA 02133

Dear Mr. James:

In accordance with the provisions of Chapter 7, Section 50 of the General Laws, I am pleased on behalf of the Public Employee Retirement Administration Commission (PERAC), to file amendments to the rules and regulations governing retirement of public employees in Massachusetts (840 CMR 3.08).

The technical amendments that were required by the IRS make slight changes to the PERAC regulation regarding application of the limit under Code Section 415(b). This IRS provision places a limit on the amount of the benefit that may be paid by a qualified retirement plan. These amendments relate to the actuarial assumptions used to determine the appropriate benefit limit, depending on the payment option and age of the member. The amendments do not make any substantive changes to the prior language that was adopted by the Commission, but simply reflect technical language changes that were preferred by the IRS reviewing agent.

Pursuant to the provisions of G.L. c. 7, § 50, the clerks shall refer this matter to the appropriate standing committee of the general court. If the general court takes no final action relative to the regulations within forty-five days of the date said regulations are referred to the appropriate committee, the general court not having prorogued within said forty-five days, the regulations shall be deemed to be approved. Within fifteen days of receipt of any recommendations, the committee shall transmit in writing to PERAC its suggestions, if any, for modifications in recommended regulations. Within fifteen days of receipt of the committee's suggestions, PERAC shall resubmit the regulations to the committee, together with any modifications made to them.

If you have questions or need additional information, please feel free to contact me.

Sincerely,



Joseph E. Connarton
Executive Director

JEC/b

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Enclosure



Section 50. The public employee retirement administration commission, established under section 4A, shall have general responsibility for the efficient administration of the public employee retirement system, under chapter 32. The public employee retirement administration commission's powers and duties shall include, but not be limited to:

(a) promulgating rules and regulations governing administrative procedures, financial operations, records and reports of the retirement boards, subject to the approval of the general court; provided, that if the general court takes no final action relative to such rules and regulations within forty-five days of the date said such rules and regulations are filed with the clerks of the house of representatives and the senate, the general court not having prorogued within said forty-five days such rules and regulations shall be deemed to be approved;

840 CMR 3.08 Internal Revenue Code Section 415:

- (1) Basic 415 Limitations: Effective as of September 1, 1974, in compliance with the provisions of Section 5(3)(f) of Chapter 32 and in furtherance of the application of the compensation limitations set forth in that Section 1, member contributions paid to, and retirement benefits paid from, any retirement system subject to Chapter 32 ("system") shall be limited to such extent as may be necessary to conform to the requirements of Internal Revenue Code Section 415 for a qualified governmental pension plan.
- (2) Limitation Year: For purposes of Internal Revenue Code Section 415, the limitation year is the calendar year.
- (3) Participation in Other Qualified Plans: Aggregation of Limits:
 - a. The 415(b) limit with respect to any member who at any time has been a member in any other defined benefit plan as defined in Internal Revenue Code Section 414(j) maintained by the member's employer in this system shall apply as if the total benefits payable under all such defined benefit plans in which the member has been a member were payable from one (1) plan.
 - b. The 415(c) limit with respect to any member who at any time has been a member in any other defined contribution plan as defined in Internal Revenue Code Section 414(i) maintained by the member's employer in this system shall apply as if the total annual additions under all such defined contribution plans in which the member has been a member were payable from one (1) plan.
- (4) Basic 415(b) Limitation:
 - a. Before January 1, 1995, a member may not receive an annual benefit that exceeds the limits specified in Internal Revenue Code Section 415(b), subject to the applicable adjustments in that section.
 - b. On and after January 1, 1995, a member may not receive an annual benefit that exceeds the dollar amount specified in Internal Revenue Code Section 415(b)(1)(A), subject to the applicable adjustments in Internal Revenue Code Section 415(b) and subject to any additional limits that may be specified in Chapter 32. In no event shall a member's annual benefit payable in any limitation year from a plan subject to this title be greater than the limit applicable at the annuity starting date, as increased in subsequent years

pursuant to Internal Revenue Code Section 415(d) and the regulations thereunder.

(5) Definition of Annual Benefit: For purposes of Internal Revenue Code Section 415(b), the "annual benefit" means a benefit payable annually in the form of a straight life annuity (with no ancillary benefits) without regard to the benefit attributable to after-tax employee contributions (except pursuant to Internal Revenue Code Section 415(n)) and to rollover contributions (as defined in Internal Revenue Code Section 415(b)(2)(A)). The "benefit attributable" shall be determined in accordance with Treasury Regulations.

(6) Adjustments to Basic 415(b) Limitation for Form of Benefit: If the benefit under the system is other than the form specified in subsection (5), then the benefit shall be adjusted so that it is the equivalent of the annual benefit, using factors prescribed in Treasury Regulations.

a. If the form of benefit without regard to the automatic benefit increase feature is not a straight life annuity or a qualified joint and survivor annuity, then the preceding sentence is applied by either reducing the Internal Revenue Code Section 415(b) limit applicable at the annuity starting date or adjusting the form of benefit to an actuarially equivalent amount [determined using the assumptions specified in Treasury Regulation Section 1.415(b)-1(c)(2)(ii)] that takes into account the additional benefits under the form of benefit as follows:

b. For a retirement benefit paid which is payable in a form other than a straight life annuity, and the form of benefit is not subject to which Internal Revenue Code Section 417(c)(3) does not apply [a monthly benefit], the for the purposes of applying the limitation in subsection (h)(4), is adjusted to an actuarially equivalent straight life annuity benefit that is the greater of (or the reduced Section 415(b) limit applicable at the annuity starting date which is the "lesser of" when adjusted in accordance with the following assumptions) that equals:

(i) The annual amount of the straight life annuity (if any) payable to the member under the system commencing at the same annuity starting date as the form of benefit to the member, or

- (i) ~~The annual amount of the~~ for limitation years beginning on or after January 1, 2012, the greater of the annual amount of the straight life annuity (if any) payable under the plan at the same annuity starting date, and the annual amount of a straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the member's form of benefit payable to the Employee Beneficiary, computed using a 5% interest assumption (or the applicable statutory interest assumption) and (i) for years prior to January 1, 2009, an interest rate of 5 percent and the applicable mortality tables described in Treasury Regulation section 1.417(e)-4(d)(2) (Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Rulings 2001-62), and (ii) table under § 417(e)(3) (i.e., Rev. Rul. 2001-62) (and for years after December 31, 2008, the applicable mortality tables described in Code Section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing Code Section 417(e)(3)(B)); or and
- (ii) for limitation years beginning before January 1, 2012, the annual amount of a straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the member's form of benefit computed using whichever of the following produces the greater annual amount: (1) the interest rate and mortality table or other tabular factor specified in the plan for adjusting benefits in the same form; and (2) a 5 percent interest rate assumption and the applicable mortality table (Code Section 415, Treas. Reg. 1.415(b)-1(c)(2)).
- c. For a retirement benefit ~~paid~~ which is payable in a form other than a straight life annuity, and the form of the benefit is subject to which Internal Revenue Code Section 417(e)(3) applies ~~fa lump sum benefit~~, the benefit for purposes of applying the limitation in subsection (h)(4), is adjusted to an actuarially equivalent straight life annuity benefit that is the greatest of (or the reduced

Section 415(b) limit applicable at the annuity starting date which is the "least of" when adjusted in accordance with the following assumptions) that equals:

- (i) The if the annuity starting date is in a plan year beginning after 2005, the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the particular participant's form of benefit payable, computed using the interest rate and mortality table, or tabular factor, using whichever of the following produces the greatest annual amount-: (1) the interest rate and the mortality table or other tabular factor specified in the plan for actuarial experience adjusting benefits in the same form; (2) a 5.5 percent interest rate assumption and the applicable mortality table; and (3) the applicable interest rate under §417(e)(3) and the applicable mortality table, divided by 1.05 and for years after December 31, 2008, the applicable mortality tables described in Code Section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing Code Section 417(e)(3)(B));
- ~~(ii) The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable, computed using a 5.5 percent interest assumption (or the applicable statutory interest assumption) and (i) for years prior to January 1, 2009, the applicable mortality table for the distribution under Treasury Regulation section 1.417(e)-1(d)(2) (the mortality table specified in Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Ruling 2001-62); and (ii) for years after December 31, 2008, the applicable mortality tables described in Code Section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing Code Section 417(e)(3)(B)); or~~
- (iii)(ii) The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable (computed using the applicable interest rate for the distribution under Treasury Regulation section

~~1.417(e)-1(d)(3) (the 30-year Treasury rate (prior to January 1, 2007, using the rate in effect for the month prior to retirement, and on and after January 1, 2007, using the rate in effect for the first day of the plan year with a one-year stabilization period)) and (i) for years prior to January 1, 2009, the applicable mortality rate for the distribution under Treasury Regulation section 1.417(e)-1(d)(2) (the mortality table specified in Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Ruling 2001-62), and (ii) for years after December 31, 2008, the applicable mortality tables described in Code Section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing Code Section 417(e)(3)(B)), divided by 1.05.~~

(7) Benefits Not Taken into Account for 415(b) Limitation: For purposes of Chapter 32, the following benefits shall not be taken into account in applying these limits:

- a. Any ancillary benefit which is not directly related to retirement income benefits;
- b. That portion of any joint and survivor annuity that constitutes a qualified joint and survivor annuity;
- c. Any other benefit not required under Internal Revenue Code Section 415(b)(2) and Regulations thereunder to be taken into account for purposes of the limitation of Internal Revenue Code Section 415(b)(1).

(8) Other Adjustments in 415(b) Limitation:

- a. In the event the member's retirement benefits become payable before age sixty-two (62), the limit prescribed by this section shall be reduced in accordance with regulations issued by the Secretary of the Treasury pursuant to the provisions of Internal Revenue Code Section 415(b), so that such limit (as so reduced) equals an annual straight life benefit (when such retirement income benefit begins) which is equivalent to a one hundred sixty thousand dollar (\$160,000), as adjusted, annual benefit beginning at age sixty-two (62); benefit is limited to:

- (i) if the annuity starting date is in a limitation year beginning before January 1, 2012, the annual amount of a benefit payable in the form of

a single life annuity commencing at the member's annuity starting date that is the actuarial equivalent of the dollar limitation determined, with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and mortality table or other tabular factor specified in the plan for determining actuarial equivalence for early retirement purposes; or (2) a 5 percent interest rate assumption and the applicable mortality table;

(ii) if the annuity starting date is in a limitation year beginning on or after January 1, 2012, and the plan does not have an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the annual amount of a benefit payable in the form of a straight life annuity commencing at the member's annuity starting date that is the actuarial equivalent of the dollar limitation, with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table and expressing the member's age based on completed calendar months as of the annuity starting date; and

(iii) if the annuity starting date is in a limitation year beginning on or after January 1, 2012, and the plan has an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the lesser of (1) the adjusted dollar limitation determined in accordance with (ii); and (2) the product of the dollar limitation multiplied by the ratio of the annual amount of the immediately commencing straight life annuity under the plan at the member's annuity starting date to the annual amount of the immediately commencing straight life annuity under the plan at age 62, both determined without applying the limitations of Code Section 415. Code Section 415; Treas. Reg. 1.415(b)-1(d).

- b. In the event the member's benefit is based on at least fifteen (15) years of service as a full-time employee of any police or fire department or on fifteen (15) years of military service, the adjustments provided for in subsection a. above shall not apply.

- c. The reductions provided for in subsection a. above shall not be applicable to pre-retirement disability benefits or pre-retirement death benefits.
- (9) Less than Ten (10) Years of Service Adjustment for 415(b) Limitation: The maximum retirement benefits payable to any member who has completed less than ten (10) years of service shall be the amount determined under subsection 1 multiplied by a fraction, the numerator of which is the number of the member's years of service and the denominator of which is ten (10). The reduction provided by this subsection cannot reduce the maximum benefit below 10%. The reduction provided for in this subsection shall not be applicable to pre-retirement disability benefits or pre-retirement death benefits.
- (10) Ten Thousand Dollar (\$10,000) Limit: Notwithstanding the foregoing, the retirement benefit payable with respect to a member shall be deemed not to exceed the 415 limit if the benefits payable, with respect to such member under this system and under all other qualified defined benefit pension plans to which the member's employer contributes, do not exceed ten thousand dollars (\$10,000) for the applicable limitation year and for any prior limitation year and the employer has not any time maintained a qualified defined contribution plan in which the member participated.
- (11) Effect of COLA without a Lump Sum Component on 415(b) Testing: Effective on and after January 1, 2003, for purposes of applying the limits under Internal Revenue Code Section 415(b) (the "Limit") to a member with no lump sum benefit, the following will apply:
- a. a member's applicable Limit will be applied to the member's annual benefit in the member's first limitation year without regard to any automatic cost of living adjustments;
 - b. to the extent that the member's annual benefit equals or exceeds the Limit, the member will no longer be eligible for cost of living increases until such time as the benefit plus the accumulated increases are less than the Limit;
 - c. thereafter, in any subsequent limitation year, a member's annual benefit, including any automatic cost of living increases, shall be tested under the then applicable benefit Limit including any adjustment to the Internal Revenue Code Section 415(b)(1)(A) dollar limit under Internal Revenue Code Section 415(d), and the Treasury Regulations thereunder.

(12) Effect of COLA with a Lump Sum Component on 415(b) Testing: On and after January 1, 2009, with respect to a member who receives a portion of the member's annual benefit in a lump sum, a member's applicable Limit will be applied taking into consideration cost of living increases as required by Internal Revenue Code Section 415(b) and applicable Treasury Regulations.

(13) 415(c) Limitations: After-tax member contributions or other annual additions with respect to a member may not exceed the lesser of \$40,000 (as adjusted pursuant to Internal Revenue Code Section 415(d)) or 100% of the member's compensation.

- a. Annual additions are defined to mean the sum (for any year) of employer contributions to a defined contribution plan, member contributions, and forfeitures credited to a member's individual account. Member contributions are determined without regard to rollover contributions and to picked-up employee contributions that are paid to a defined benefit plan.
- b. For purposes of applying the 415(c) limits only and for no other purpose, the definition of compensation where applicable will be compensation actually paid or made available during a limitation year, except as noted below and as permitted by Treasury Regulation Section 1.415(c)-2, or successor regulation; provided, however, that member contributions picked up under Internal Revenue Code Section 414(h) shall not be treated as compensation.
- c. Unless another definition of compensation that is permitted by Treasury Regulation Section 1.415(c)-2, or successor regulation, is specified by a system subject to this title, compensation will be defined as wages within the meaning of Internal Revenue Code Section 3401(a) and all other payments of compensation to an employee by an employer for which the employer is required to furnish the employee a written statement under Internal Revenue Code Sections 6041(d), 6051(a)(3) and 6052 and will be determined without regard to any rules under Internal Revenue Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Internal Revenue Code Section 3401(a)(2)).
 - (i) However, for limitation years beginning after December 31, 1997, compensation will also include amounts that would otherwise be

included in compensation but for an election under Internal Revenue Code Section 125(a), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b). For limitation years beginning after December 31, 2000, compensation will also include any elective amounts that are not includible in the gross income of the employee by reason of Internal Revenue Code Section 132(f)(4).

- (ii) For limitation years beginning on and after January 1, 2007, compensation for the limitation year will also include compensation paid by the later of 2½ months after an employee's severance from employment or the end of the limitation year that includes the date of the employee's severance from employment if:

- (A) the payment is regular compensation for services during the employee's regular working hours, or compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses or other similar payments, and, absent a severance from employment, the payments would have been paid to the employee while the employee continued in employment with the employer; or
- (B) the payment is for unused accrued bona fide sick, vacation or other leave that the employee would have been able to use if employment had continued.

Any payments not described in paragraph (ii) above are not considered compensation if paid after severance from employment, even if they are paid within 2½ months following severance from employment, except for payments to the member who does not currently perform services for the employer by reason of qualified military service (within the meaning of section 414(u)(1) of the Internal Revenue Code) to the extent these payments do not exceed the amounts the individual would have received if the member had continued to perform services for the employer rather than entering qualified military service.

A member who is in qualified military service (within the meaning of section 414(u)(1) of the Internal Revenue Code) shall be treated as receiving compensation from the employer during such period of qualified military service equal to (i) the compensation the member would have received during such period if the member were not in qualified military service, determined based on the rate of pay the member would have received from the employer but for the absence during the period of qualified military service, or (ii) if the compensation the member would have received during such period was not reasonably certain, the member's average compensation from the employer during the twelve month period immediately preceding the qualified military service (or, if shorter, the period of employment immediately preceding the qualified military service).

(iii) Back pay, within the meaning of Treasury Regulation Section 1.415(c)-2(g)(8), shall be treated as compensation for the limitation year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

(14) Service Purchases under Internal Revenue Code Section 415(n): Effective for permissive service credit contributions made in accordance with the applicable provisions of Chapter 32, in limitation years beginning after December 31, 1997, if a member makes one or more contributions to purchase permissive service credit under a plan, then the requirements of Internal Revenue Code Section 415(n) will be treated as met only if:

- a. the requirements of Internal Revenue Code Section 415(b) are met, determined by treating the accrued benefit derived from all such contributions as an annual benefit for purposes of Internal Revenue Code Section 415(b), or
- b. the requirements of Internal Revenue Code Section 415(c) are met, determined by treating all such contributions as annual additions for purposes of Internal Revenue Code Section 415(c).

- c. For purposes of applying this section, the system will not fail to meet the reduced limit under Internal Revenue Code Section 415(b)(2)(C) solely by reason of this section and will not fail to meet the percentage limitation under Internal Revenue Code Section 415(c)(1)(B) solely by reason of this section.
- d. For purposes of this section the term "permissive service credit" means service credit—
 - (i) recognized by the system for purposes of calculating a member's benefit under the system,
 - (ii) which such member has not received under the system, and
 - (iii) which such member may receive only by making a voluntary additional contribution, in an amount determined under the system, which does not exceed the amount necessary to fund the benefit attributable to such service credit.

Effective for permissive service credit contributions made in limitation years beginning after December 31, 1997, such term may include service credit for periods for which there is no performance of service, and, notwithstanding clause (ii), may include service credited in order to provide an increased benefit for service credit which a member is receiving under the system.

- e. The system will fail to meet the requirements of this section if—
 - (i) more than five years of nonqualified service credit are taken into account for purposes of this subparagraph, or
 - (ii) any nonqualified service credit is taken into account under this paragraph before the member has at least five years of participation under the plan.
- f. For purposes of paragraph (e), effective for permissive service credit contributions made in limitation years beginning after December 31, 1997, the term "nonqualified service credit" means permissive service credit other than that allowed with respect to—
 - (i) service (including parental, medical, sabbatical, and similar leave) as an employee of the Government of the United States, any State or political subdivision thereof, or any agency or instrumentality of any

of the foregoing (other than military service or service for credit which was obtained as a result of a repayment described in Internal Revenue Code Section 415(k)(3)),

- (ii) service (including parental, medical, sabbatical, and similar leave) as an employee (other than as an employee described in clause (A)) of an education organization described in Internal Revenue Code Section 170(b)(1)(A)(ii) which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), or a comparable level of education, as determined under the applicable law of the jurisdiction in which the service was performed,
- (iii) service as an employee of an association of employees who are described in clause (i), or
- (iv) military service (other than qualified military service under Internal Revenue Code Section 414(u)) recognized by such governmental plan.

In the case of service described in clause (i), (ii), or (iii), such service will be nonqualified service if recognition of such service would cause a member to receive a retirement benefit for the same service under more than one plan.

- g. In the case of a trustee-to-trustee transfer after December 31, 2001, to which Internal Revenue Code Section 403(b)(13)(A) or Internal Revenue Code Section 457(e)(17)(A) applies (without regard to whether the transfer is made between plans maintained by the same employer)—
 - (i) the limitations of paragraph (e) will not apply in determining whether the transfer is for the purchase of permissive service credit, and
 - (ii) the distribution rules applicable under federal law to the system will apply to such amounts and any benefits attributable to such amounts.
- h. For an eligible member, the limitation of Internal Revenue Code Section 415(c)(1) shall not be applied to reduce the amount of permissive service credit which may be purchased to an amount less than the amount which was allowed to be purchased under the terms of the system as in effect on August

5, 1997. For purposes of this paragraph an eligible member is an individual who first became a member in the plan before January 1, 1998.

(15) Modification of Contributions for 415(c) and 415(n) Purposes: Notwithstanding any other provision of law to the contrary, the system may modify a request by a member to make a contribution under Chapter 32 if the amount of the contribution would exceed the limits provided in Internal Revenue Code Section 415 by using the following methods:

- a. If the law requires a lump sum payment for the purchase of service credit, the system may establish a periodic payment plan for the member to avoid a contribution in excess of the limits under Internal Revenue Code Section 415(c) or 415(n).
- b. If payment pursuant to subparagraph (a) will not avoid a contribution in excess of the limits imposed by Internal Revenue Code Section 415(c) or 415(n), the system may either reduce the member's contribution to an amount within the limits of those sections or refuse the member's contribution.

(16) Repayments of Cashouts: Any repayment of contributions (including interest thereon) to the system with respect to an amount previously refunded upon a forfeiture of service credit under the system or another governmental plan maintained by the State or a local government within the State shall not be taken into account for purposes of Internal Revenue Code Section 415, in accordance with applicable Treasury Regulations.

(17) Reduction of Benefits Priority: Reduction of benefits and/or contributions to all plans, where required, shall be accomplished by first reducing the member's benefit under any defined benefit plans in which the member participated, such reduction to be made first with respect to the plan in which the member most recently accrued benefits and thereafter in such priority as shall be determined by the plan and the plan administrator of such other plans, and next, by reducing or allocating excess forfeitures for defined contribution plans in which the member participated, such reduction to be made first with respect to the plan in which the member most recently accrued benefits and thereafter in such priority as shall be established by the plan and the plan administrator for such other plans provided, however, that necessary reductions may be made in a different manner and priority pursuant to the agreement of the plan and the plan administrator of all other plans covering such member.

(18) Amendment: Nothing contained in this section will limit the Legislature from modifying benefits to the extent such modifications are permissible by applicable state and federal law.