

Buyback Agreements

**More important every
time we talk about it**

What Are They?

Members are allowed to purchase creditable service time under Chapter 32

- Section 3: (late entry to membership, prior refund, prior non-membership service)
- Section 4: Military service time up to 4 years for qualified veterans
- Can be members of multiple systems

Why Do We Care?

- The formula: high 3 X age X creditable service
- Difficult to fudge high 3 or age
- Very common event upon retirement to provide additional evidence of public service to qualify for an additional benefit
- Can we measure this? Actuarial data does not assume potential service

We Can Try

Various attempts to limit these retirement “surprises” by legislation

- Invoked 180 day notification rule for military service buybacks (zero interest)
- Mandated $\frac{1}{2}$ the assumed actuarial rate for buybacks
 - Section 3 after 7/1/2005
 - Section 4 after 7/1/2008 (non-military)
- Pension Reform 2012 mandates full assumed actuarial rate after 4/2/2013 for current members

Better Than Nothing

- Most common practice is “off balance sheet” treatment
- Cash Basis: payments applied when received
- Ignores the “accrual” concept of accounting
- Provides no basis to measure future impact of these “surprises”

Buyback Agreements: Are they Assets? Maybe

- Specific terms, stated in writing, and formalized by both parties
- Equivalent to a binding contract; satisfies GASB and FASB concept defining an asset
- Only the portion funded should be included in the individual member's Annuity Savings Fund (ASF) balance subject to interest accrual

Add To Balance Sheet

- Follows proper GAAP in accounting for these agreements
- Improves internal control by requiring subsidiary records to be maintained
- Helps the collection and receipt of funds properly due the retirement system
- Provides an audit trail for these “off balance sheet” transactions

More on Buyback Agreements

- Make an assessment at year-end
- Add up to a total; Debit Accounts Receivable - #1398; Credit Make Up Payments #4893
- Should reconcile to ASF #3293. Add a line to your Supplemental Membership Schedule for this adjustment
- Adjust annually
- Additional information is provided on Page 15 of the *Accounting Manual*

Actuarial Interest on Buybacks

- Currently, all buybacks, except military service, should use $\frac{1}{2}$ actuarial assumed rate
- Section 3 buybacks should be funded within one year, for current members <(4/2/2013), new members get one year only
- After that deadline, full actuarial assumed rate (8%, 8.25%, 8.5%) must be used (Section 3 only)
- It's becoming more expensive to defer the buyback decision

Sample Worksheet for Buybacks

- There is an example provided on the PERAC website for tracking periodic payments that apply to a current agreement (2008)
- We will update that example to include the Section 3 interest increase
- It remains valid for Section 4 (non-military) buyback agreements

Supplemental ASF Schedule

- Consider buyback agreement adjustments based on current year assessment
- Compare ending balance on supplemental schedule with general ledger balance #3293
- Consider pro-active reconciliation on a regular basis (semi-annual, quarterly, monthly!)

There Are Ways Around It?

- Board can vote to receive all make ups in one lump sum
 - arrange financing thru credit union
 - commonly fund thru other retirement assets (401K, 403B, OBRA plan, etc.)
- Payroll department can refuse to authorize deductions from compensation
- No reasonable basis to accrue?