

MEMORANDUM #05, 2014

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304, Somerville, MA 02145

Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac

Domenic J. F. Russo, *Chairman*

Auditor Suzanne M. Bump | Philip Y. Brown, Esq. | John B. Langan | James M. Machado | Donald R. Marquis | Robert B. McCarthy

Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Effective Date of Actuarial Assumed Interest for Buybacks

DATE: January 13, 2014

We have received several questions regarding when a retirement board should start using the new buyback interest rate in instances where a system changes the investment return assumption used in its actuarial valuation. Buyback interest is defined to be one half the actuarial assumed interest rate which is the rate equal to the system's actuarial assumed rate of return on investments, as determined by the Commission.

To ensure that there is a uniform application by retirement boards, going forward, the new buyback interest rate is to be effective on the January 1 immediately following the date an actuarial valuation report has been issued to a Retirement Board. For example, if a system had a January 1, 2013 actuarial valuation performed and the investment return assumption was reduced from 8% to 7.75% as part of the valuation and the report was issued in 2013, then the retirement system should begin using 3.875% as the buyback interest rate (half of 7.75%) for any buyback or make-up application received on or after January 1, 2014 in which buyback interest is applicable.

We trust the foregoing is of some assistance. If you have any questions concerning this matter, do not hesitate to contact the Commission.