

# Memorandum #23, 2012

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Service Purchases Pursuant to G.L. c. 32, § 3

DATE: March 2, 2012

## CORRECTED

Section 9 of Chapter 176 of the Acts of 2011 amends G.L. c. 32, § 3(8)(b) by requiring that the interest charged on a purchase of service be increased if the service purchase is not made within a specified time period. Only service purchases made under G.L. c. 32, § 3 will be affected. Currently, purchases of service under Section 3 are made with buyback interest. This amendment, which takes effect on April 2, 2012, provides that service purchases not made within the specified time frame will be subject to actuarially assumed interest.

Section 9 has specific provisions that are only applicable to two specific groups - members and members reinstated into service. Section 9 is to be applied to these two groups as detailed in this memorandum.

### Members as of April 2, 2012

As of April 2, 2012, any member in service or inactive member<sup>1</sup>, who wishes to buy back service pursuant to G.L. c. 32, § 3 will continue to be charged the buyback interest rate only if the member completes the entire buy back or service purchase or enters into an installment agreement for such service by April 2, 2013. The installment agreement cannot exceed a term of five years. If the member cannot complete the purchase by April 2, 2013 or defaults on the installment agreement, the retirement board must prospectively charge the member full actuarial assumed interest on the outstanding balance as of April 2, 2013 or on the outstanding balance as of the date the member defaulted on the installment agreement.

### Members Reinstated or Re-entering into Service

As of April 2, 2012, any member who re-enters or is reinstated into service, who is eligible to purchase service under Chapter 32, § 3 and who enters into an installment agreement within the later of one year from the date of re-entry or reinstatement or April 2, 2013 is to be charged the buyback interest rate on the entire buyback or service purchase to determine the amount owed to the system in a lump sum or in installments. The installment agreement cannot exceed a term of five years. If the member defaults on the installment agreement, the retirement board must prospectively charge the member full actuarial assumed interest on the outstanding balance as of the date the member defaults on the installment agreement or April 2, 2013 whichever date is later.

As of April 2, 2012, any member who re-enters or is reinstated into service, who is eligible to purchase service under Chapter 32, § 3 and who does not purchase the service or enter into an installment agreement within the later of one year from the date of re-entry or reinstatement or April 2, 2013 is to be charged the full actuarial assumed interest rate on the entire buyback or service purchase. The member may still enter into an installment agreement to pay back this amount and the installment agreement cannot exceed a term of five years.

### Example:

A member enters into an installment agreement (or is already in an installment agreement) to purchase service. The initial amount the member owes in a lump sum is \$50,000. The member makes payments for a period of time then defaults on the agreement and has an outstanding balance of \$10,000. The member returns 10 years after the default and wishes to complete the payment. Assuming the actuarial assumed interest rate is 8%, the board would charge the member \$21,589.25 to purchase the remaining service. This amount is calculated in accordance with the following equation:

New amount owed = Outstanding balance at default x (1 + act. assumed int. rate)<sup>1</sup>  
where “t” is the time, in years and months, from the date of default to the new payment date

In our example:  $\$10,000 \times (1.08)^{10} = \$10,000 \times 2.158925 = \$21,589.25$

New Members as of April 2, 2013

As of April 2, 2013, any person who first becomes a member in service who wishes to buy back service pursuant to G.L. c. 32, § 3 must be charged full actuarial assumed interest on the entire buyback or service purchase. A person with properly excluded non-membership service is considered a new member if such person first became a new member on or after April 2, 2013. Any person who first established membership prior to April 2, 2012 is considered a member reinstated or re-entering into service, not a new member.

Retirement boards are encouraged to contact members and make them aware of these changes as soon as possible in order for members to have the opportunity to maximize the period in which such members can make the purchase and take advantage of the lower buy back interest rate.

Moreover, it must be noted that the buy back process can be slowed when the buy back involves a member's service in multiple retirement systems. As a result, it is imperative that members begin the buy back process as soon as possible to meet the deadlines set forth in Section 9.

Beginning in January 2013, PERAC will issue repayment worksheets with factors for the full actuarial assumed interest rates.

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

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<sup>1</sup> Please refer to the PERAC Pre-Tax Rollover Acknowledgement Form for specific information regarding how an inactive member can purchase creditable service only through an eligible rollover.