

MEMORANDUM #31, 2010

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Refunds to Members Who Voluntarily Terminate Service With Less Than 10 Years of Creditable Service

DATE: July 26, 2010

We have been contacted by several boards and staff expressing concern over the recently enacted FY11 State Budget (Chapter 131 of the Acts of 2010) section that impacts the calculation of interest for persons who became members after January 1, 1984 and request a refund of their contributions to the system. Section 25 provides that effective July 1, 2010, the annual rate of interest that will be paid when a member voluntarily withdraws from service and seeks a return of his or her contributions with less than 120 months (10 years) of creditable service will be 3%. The following is an effort to address these concerns.

This provision applies only to members voluntarily withdrawing from service with less than 10 years of creditable service, so the amount of interest credited to members' accounts before withdrawal remains unchanged at regular interest. The interest is calculated and applied only when the member withdraws his or her funds. Interest payable on the contribution refunds for those involuntarily withdrawing from service or for those with more than 10 years of creditable service will be set at regular interest. The 2 year limitation on the accrual of interest remains unchanged.

This is a fundamental change in the way the interest is calculated for refunds qualifying under this provision. A refund in these circumstances will include interest at a rate of 3% for the entire period, meaning that the interest credited for each year will be 3%. Previously, interest was awarded differently for those voluntarily leaving service with less than 5 or 10 years, and that provision in the law has now been superseded.

We are in the process of updating the PERAC form entitled *Application for Withdrawal of Total Accumulated Deductions* that was most recently revised September, 2009. This form allows a member to receive a refund of the total accumulated contributions in his or her Annuity Savings (retirement) account. During this interim transitional period, we continue to encourage use of this form. Manual editing is acceptable and encouraged.

The attachment provides specific examples using a manual or application based spreadsheet that Board staff can reference. We anticipate that the vendors and providers will be able to accommodate the changes associated with this change over time. Our examples are based on an inspection of the normal membership file Annuity Savings Record generally available on screen, print or manual records in most systems. You are encouraged to utilize this spreadsheet until the refund portion of the membership module can be adjusted to reflect the changes included in this notice. We do not anticipate any additional accounting tasks relative to this section. Refunds should continue to be disbursed using Refunds to Members #5757. The interest related to these refunds should continue to be applied through the membership module using the transfer process from the Pension Reserve Fund to the Annuity Savings Fund.

Board staff is encouraged to maintain a complete record and the associated documentation pertaining to both the

refund as well as the original statutory regular interest applied to member's refunds under this section. These will be an essential reference in the event a member is reemployed with the same or another system subject to Chapter 32 and the provisions of this section.

Boards should carefully counsel members applying for a refund to assure that they are aware of the requirements and benefits of this section. Boards should provide a copy of the requirements of this section to such members. The current rules related to buybacks are unchanged by this provision. Interested individuals should carefully consider whether a refund is appropriate in their situation.

We trust the foregoing is of assistance. Any questions should be directed to the PERAC audit unit:
James.Tivnan@MassMail.State.MA.US.

Attachment

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