

FREQUENTLY ASKED QUESTIONS (FAQ'S) REGARDING ADDITIONAL RETIREMENT CREDIT (ARC)

Q.1 What is Additional Retirement Credit?

Additional Retirement Credit or “ARC” is credit that you can purchase to increase your total retirement service credit for calculating your retirement allowance. ARC is not based on actual employment.

Q.2 Am I eligible to purchase ARC?

You must be an **active member in the SBCERA plan** at the date of purchase **and** you must have been an active member for the twelve months immediately preceding the date of purchase in order to purchase ARC. Also, you must have at least 5 years of credited service with SBCERA before you can purchase ARC.

Q.3 I am on deferred status. Can I purchase ARC?

No. You must be an active member to purchase ARC.

Q.4 How will ARC benefit me?

Purchasing ARC will increase your total years of service credit for calculating your retirement allowance. However, additional years of service credit may or may not increase your monthly retirement allowance.

Q.5 Will ARC count towards meeting the requirements to retire, or any other benefits?

No. ARC adds to your total retirement service credit for purposes of calculating your retirement allowance only. ARC cannot be used to meet the minimum eligibility requirements for a service or disability retirement or towards a cancellation of contributions for members who attain 30 years of service credit. Also, ARC is not applied when calculating additional ad-hoc cost-of-living benefits, supplemental subsidy, or any other benefits that are based on total years of service credit. However, ARC is included in your total years of service credit for the annual April 1 cost-of-living adjustment (COLA) for retirees.

Q.6 Are there situations in which ARC will not increase my retirement allowance?

Yes. Your retirement allowance cannot exceed 100% of your final compensation, even if you have purchased ARC. Also ARC will not be counted for eligibility for a retirement

allowance, so if you are not eligible before buying ARC you will not become eligible merely because you purchased ARC. Additionally, section 415 of the Internal Revenue Code may prevent an increase in your retirement allowance, as described below.

Q.7 If later I determine that I have bought too much ARC can I get a refund or stop payment under my ARC contract?

No. All purchases of ARC are irrevocable so you cannot receive a refund and you cannot stop payments under a contract for payroll deductions. This is also true for all other purchases of service credit. Furthermore, if you sign a contract to pay for ARC, the amount of the purchase cannot be reduced on a change in circumstances.

Q.8 Are there situations in which ARC will decrease my retirement allowance?

No. You may not receive any additional benefit from a purchase of ARC, but your retirement allowance will not be reduced

Q.9 How much ARC may I purchase?

You may purchase a minimum of 12 months up to a maximum of 60 months. If you request an official SBCERA cost notification, your contract will indicate the exact cost for the amount of ARC you request to purchase. Also, if you purchase service credit for sick leave without pay, this might reduce the amount of ARC credit that you may purchase on a month for month basis because of limitations set by the federal tax laws. If this could affect you, please ask SBCERA about your particular circumstances before entering into a contract to purchase ARC.

Q.10 How is the cost of ARC calculated?

By law, ARC must not place any additional financial burden on the retirement system. Therefore, the member pays the **full actuarial cost** as determined by SBCERA of the additional future retirement benefit. The calculation formula is called the “present value formula,” which uses your highest twelve (12) month salary and age, together with **actuarial assumptions** for salary increases and retirement age, to calculate your cost in today’s dollars. For most member purchases, one (1) year (12 months) of ARC will cost about 20-25% of your current compensation earnable. If you are interested in purchasing ARC please contact SBCERA for an official Cost Notification.

Q.11 How can I pay for ARC?

While you are an **active employee**, you may pay the cost of an ARC contract with:

- Before-tax lump sum direct transfer from the trustee of a SBCERA employer's 401(k), 457(b), 403(b) or tax-qualified 401(a) plan as long as that plan provides for such transfers,

- Before-tax monthly payroll deductions pursuant to a “pickup” agreement between you and your employer, or
- Before-tax partial lump sum direct transfers (see the first bullet point above) **and** before-tax monthly payroll deductions (see the second bullet point above)

Within 120 days after retirement or termination and deferral, you may complete an ARC contract with:

- Before-tax direct transfer from the trustee of a SBCERA employer's 401(k), 457(b), or other tax-qualified plan.

Q.12 Can I use after-tax dollars to pay for ARC?

No. SBCERA does not accept after-tax dollars, such as money from your checking or savings account or proceeds from mortgage refinancing. Please see #11 above for acceptable payment options.

Q.13 What are the contract payment terms?

Your contract term (payment period) may be up to 10 years (from 1 month up to 120 months).

Q.14 I began a contract to purchase ARC, but now I want to cancel it. Can I do this?

No. Monthly contracts paid with before-tax dollars are irrevocable and cannot be modified or terminated, regardless of any change in personal circumstances or hardship or any other reason.

Q.15 Will my ARC contract affect my monthly plan contributions?

No. Your current retirement contributions will continue to be deducted from your monthly paycheck in addition to any deductions for ARC.

Q.16 What if I retire before my contract is paid in full?

If you retire before your contract is paid in full, you may complete the contract within 120 days after retirement. See Q/A 11 for how the balance due on the contract can be paid. If you do not complete the payment of your contract, then your retirement allowance will be recalculated to reflect the total ARC purchased (prorated if not paid in full).

Q.17 What if I terminate my employment and defer retirement before my contract is paid in full?

If you terminate and defer before your contract is paid in full, you may complete the contract within 120 days after your termination date. See Q/A 11 for how the balance due on the contract can be paid. If you do not complete the payment of your contract, then when you retire, your retirement allowance will include the ARC you purchased (prorated if not paid in full).

Q.18 If I die before my contract is paid in full, can my surviving spouse complete payment of the contract?

Yes. If you die before retirement and before your contract is paid in full, your surviving spouse may complete the contract within 120 days after the date of death. Payment may be with a before-tax direct transfer from the trustee of a SBCERA employer's 401(k), 457(b), or other tax-qualified plan. If payment on the contract is not completed, then the survivor's allowance will be recalculated to reflect the total ARC purchased (prorated if not paid in full).

Q. 19 Are there situations where federal tax laws will limit the benefit from ARC that I may otherwise receive?

Yes, for 2009, under section 415 of the Internal Revenue Code (IRC) if a retiree's benefits are not grandfathered, the maximum retirement allowance that can be paid per year is \$195,000 if you retire on or after age 62. Additionally, if you retire earlier than age 62, the maximum that can be paid is reduced actuarially by the IRC and can be as low as \$84,903 at age 50.

The benefit from ARC may be limited by section 415. Whether this is the case depends on your total benefits, some very complicated calculations under the IRC, and the way that you pay for the benefit. For example, if you pay for the benefit by a direct lump sum transfer from the County's 401(k) plan, then the ARC benefit may not be limited. The final determination must be made by SBCERA's actuaries based on actuarial factors established by the IRS, and those factors are subject to change. If you pay for ARC by pre-tax payroll deductions, and if your benefits are close to the section 415 limit without ARC, then there is a higher chance that your ARC benefits will be limited by section 415.

However, employees of San Bernardino County whose benefits are limited by section 415 may be eligible for the San Bernardino County's Replacement Benefit Plan (RBP). Inquiries about the County's RBP should be directed to the County Human Resources Department at (909) 387-5563.

Q. 20 What if I go on unpaid leave of absence before my contract is paid in full?

Depending on the circumstances payments may be suspended until you come back to work and then payments would resume. If you do not return to work and terminate employment instead, you can choose to pay off the remainder of the contract within 120 days of terminating employment. If you do not return to work, terminate employment, and retire, but do not choose to pay off the remainder of the contract, then your retirement allowance will include the ARC you purchased (prorated if not paid in full).

Disclaimer

This FAQ Sheet was drafted by the SBCERA staff in order to help members understand complex pension issues surrounding the purchase of additional retirement credit (ARC). Every effort has been made to ensure the accuracy of the information offered. However, you should not rely solely on the information contained herein. In the event of any discrepancy between the information contained in this FAQ and the Government Code provisions, state and federal tax law the Government Code provisions and the state and federal tax law will govern.

SBCERA's staff is unable to address specific tax questions. If you have questions regarding either federal or state income taxes, please contact the Internal Revenue Service (800) 829-1040, State Franchise Tax Board (800) 852-5711, or consult with your personal tax advisor. You may also wish to obtain a copy of Internal Revenue Service Publication 575, "Pension and Annuity Income", or visit their web site at <http://www.irs.ustreas.gov/> for more detailed information on the taxation of your retirement benefit.