Understanding Retirement

Examples of Concepts and
Calculations in Real World Scenarios

Marin County Employees' Retirement Association

Meet Martin.

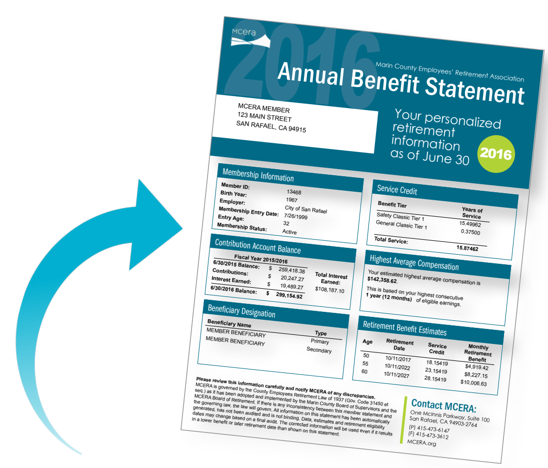
Martin is an MCERA member who works for Marin County. Although he worked as an extra hire for 3 years, he wasn't hired permanently until 1998 when he was 35 years old. Becoming a permanent hire in 1998 placed him in County general retirement tier 3 (2% at 55). He started paying contributions and began earning service credit toward a future retirement benefit.

Today Martin is 50 years old and he's had a rewarding 15-year career with the County. He knows he's met the retirement eligibility requirements for his tier (age 50 with at least 10 years of service credit) and he's ready to start planning for the big day.

Martin's Membership Data

Let's look at Martin's current membership data. This information will play into his planning scenarios on the following pages.

Employer:	County of Marin
Retirement tier:	General Tier 3
Benefit formula:	2% at 55
Membership date:	1998
Age at entry into membership:	35
Current MCERA service credit:	15 years
Extra hire time:	3 years
Accrued sick leave:	1,950 hours (1 year)
Highest avg. compensation:	$50,000



MCERA
2016
Marin County Employees' Retirement Association
Annual Benefit Statement

MCERA MEMBER
123 MAIN STREET
SAN RAFAEL, CA 94915

Your personalized retirement information as of June 30 2016

Membership Information

Member ID:	13468
Birth Year:	1967
Employer:	City of San Rafael
Membership Entry Date:	7/26/1999
Entry Age:	32
Membership Status:	Active

Service Credit

Benefit Tier	Years of Service
Safety Classic Tier 1	15.49962
General Classic Tier 1	0.37500
Total Service:	15.87462

Contribution Account Balance

Fiscal Year 2015/2016	
6/30/2015 Balance:	$ 259,418.38
Contributions:	$ 20,247.27
Interest Earned:	$ 19,489.27
6/30/2016 Balance:	$ 299,154.92

Total Interest Earned: $108,187.10

Highest Average Compensation

Your estimated highest average compensation is $142,358.62.

This is based on your highest consecutive 1 year (12 months) of eligible earnings.

Beneficiary Designation

Beneficiary Name	Type
MEMBER BENEFICIARY	Primary
MEMBER BENEFICIARY	Secondary

Retirement Benefit Estimates

Age	Retirement Date	Service Credit	Monthly Retirement Benefit
50	10/11/2017	18.15419	$4,919.42
55	10/11/2022	23.15419	$8,227.15
60	10/11/2027	28.15419	$10,006.63

Please review this information carefully and notify MCERA of any discrepancies. MCERA is governed by the County Employees Retirement Law of 1937 (Gov. Code 31450 et seq.) as it has been adopted and implemented by the Marin County Board of Supervisors and the MCERA Board of Retirement. If there is any inconsistency between this member statement and the governing law, the law will govern. All information on this statement has been automatically generated, has not been audited and is not binding. Data, estimates and retirement eligibility dates may change based on a final audit. The corrected information will be used even if it results in a lower benefit or later retirement date than shown on this statement.

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MCERA.org

Did you know?

You can find your tier, membership date, service credit and estimates on your Annual Benefit Statement.

Understanding Retirement Service Credit

Martin knows he has met the minimum retirement age requirement for his tier, but he still isn't sure exactly how much service credit he has and how it factors into his retirement eligibility and his future retirement benefit from MCERA.

If he purchases his three years of extra hire time, will those count? Will he get credit for his accrued sick leave? What happens if his hours fall below 100% of full time? What if he decides to quit his job with Marin County to take a new job at another government agency in California that has retirement reciprocity with MCERA?

Service credit is counted differently when determining eligibility and benefit payments.

The service credit used to determine Martin's eligibility to receive a monthly retirement benefit may be different than the service credit used to calculate how much his benefit will be. The boxes on the left show which types of service count only towards retirement eligibility, which type counts only toward the calculation of your benefit, and which types count toward both eligibility and benefit calculations.

You can see that if Martin purchases his extra hire time it will count toward both his retirement eligibility and his future benefit. However, his reciprocal service at another agency will only count toward his eligibility and his accrued sick leave will only count toward his benefit.

Service that Counts for Eligibility Only

Years your contributions are on deposit and you aren't actually working (must have actually earned at least 5 years of service credit)

Full-time equivalent of your part-time hours

Reciprocal service

Service that Counts for Benefits Only

Sick leave service credit conversion (applicable based on your employer)

Service that Counts for Both Eligibility and Benefits

Hours you actually work (part time hours actually worked)

Buyback of extra hire time, medical leave without pay, or part time hours

Redeposit of withdrawn contributions

Understanding Retirement Calculations

Martin needs to know how much his retirement benefit will be before he can decide to retire, but he isn't exactly sure how his benefit will be calculated. He's also considering whether or not to purchase his 3 years of extra hire time, but he doesn't know how much it would cost or how much it would impact his benefit.

What will Martin's retirement benefit be based on?

Since Martin is in County tier 3, his benefit will be calculated using the 2% at 55 formula. The formula expresses a percentage of highest average compensation for each year of service at a certain age.

His benefit will be based on the following details:

- **Age.** When MCERA calculates Martin's benefit they will convert his age to a factor. The factors get larger every quarter-year, so the longer he waits the higher the factor gets. Every tier has a maximum, though. In Martin's case, he'll no longer have the advantage of age factor increases once he reaches age 63.
- **Service Credit.** Martin earns service credit for every hour he works during his MCERA membership. The hours are converted to years of service for the calculation.
- **Highest Average Compensation.** Martin projects his highest average compensation earnable over a consecutive 36-month period will be $50,000.

What will Martin's retirement benefit be?

The table below shows Martin's service retirement calculations if he chooses to retire now at age 50, if he waits to retire at age 55, and if he decides to wait even longer until age 63.

	Age at Retirement		
	50	**55**	**63**
Age factor	0.01430 (1.43%)	0.02000 (2%)	0.02400 (2.4%)
Years of service	x 15	x 20	x 28
Highest average compensation	x $50,000	x $50,000	x $50,000
Annual benefit	$10,725	$20,000	$33,600

Can Martin purchase his extra hire time?

Martin can increase his retirement service credit by purchasing (or buying back) the 3 years of time he worked as an extra hire with the County before he was hired permanently. To get credit for the additional 3 years, Martin must make contributions equal to what he would have paid had he been a member, plus the interest his contributions would have earned over time. Interest is applied to the cost of service purchases every 6 months, so the longer Martin waits the more expensive it will be.

How will Martin's service purchase impact his retirement benefit?

The table below shows how Martin's additional 3 years of service would increase his benefit at ages 50, 55 and 63.

	Age at Retirement					
		50		55		63
Age factor		0.01430 (1.43%)		0.02000 (2%)		0.02400 (2.4%)
Years of service	x	18	x	23	x	31
Highest average compensation	x	$50,000	x	$50,000	x	$50,000
Annual benefit after purchase		$12,870		$23,000		$37,200
Annual benefit before purchase		*$10,725*		*$20,000*		*$33,600*

How much will Martin's extra hire time cost? Is it worth it?

The cost for Martin to purchase his 3 years of extra hire time is largely dependent upon when he chooses to make the purchase. Martin must make contributions equal to what he would have paid had he been a member during his extra hire time, plus the interest his contributions would have earned up to the point he completes the purchase.

Let's assume that Martin earned $25,000 per year as an extra hire. The table below shows how much it would have cost Martin to purchase his extra hire time right away when he entered MCERA membership, 5 years later, and now at 15 years later. The table also shows how long it will take Martin to earn his money back if retires at age 55.

MCERA can provide Martin with cost estimates, but he will have to decide if the service purchase is right for him.

	Service Purchase after Membership Entry		
	Immediately	**5 yrs later**	**15 yrs later**
Cost to purchase 3 years of extra hire time	$4,882	$7,024	$13,873
Annual benefit increase after purchase (retires at 55)	$3,000	$3,000	$3,000
Months to recoup the cost in retirement (retires at 55)	19.53	28.10	55.49

Understanding Sick Leave Service Credit Conversion

Sick leave is the only type of leave accrual that may be counted toward service credit. The amount of sick leave that a member can convert to service credit depends on the member's employer. To be eligible to convert a portion of unused sick leave to service credit you must terminate active employment and begin retirement the day after your termination date. Converted sick leave service credit is used when calculating retirement benefits but doesn't count toward meeting any eligibility requirements.

As a County of Marin employee, Martin can convert 75% of his accrued sick leave to service credit at the time he retires. The table below shows how much additional service credit Martin would receive after adding in his converted sick leave service.

Martin's accrued sick leave:	1,950 hours (1 year full-time service)
75% of Martin's accrual:	1,462.5 hours (9 months full-time service)
Martin's service credit before adding sick leave:	15.00 years
Martin's service credit after adding sick leave:	15.75 years (15 years 9 months)

Different employers have different rules.

County of Marin and Marin Superior Court employees are eligible to convert 75% of their accrued sick leave to service credit at the time of retirement.

Novato Fire Protection District employees are eligible to convert 100% of their accrued sick leave to service credit.

Southern Marin Fire Protection District employees are eligible to convert 40% of their accrued sick leave to service credit.

The City of San Rafael sick leave conversion policies vary by bargaining unit. Most San Rafael employees hired before June 30, 2009 are eligible to convert 100% of their sick leave to service credit. Contact the San Rafael Human Resources department for more specific information.

All other participating employers do not currently have sick leave conversion policies.

Understanding Reciprocity Calculations

Martin is considering taking a new job with the County of San Bernardino. If Martin decides to leave his job at the County of Marin, leaves his contributions on deposit with MCERA and within six months enters membership into the San Bernardino County Employees' Retirement Association (SBCERA, another 1937 Act county), his two retirement plans will link together under a reciprocal agreement.

How do Martin's reciprocal retirement systems work together?

Let's say Martin decides to leave the County of Marin tomorrow, is hired permanently with San Bernardino County and establishes reciprocity between MCERA and SBCERA. After working there for 5 years for higher pay, Martin decides to retire at age 55.

The table below highlights key data from Martin's membership in each system. Martin's total years of service for determining his eligibility to retire would be 20 years. His highest average compensation earned at either system is $60,000, so that would be used to calculate both of his benefits.

Retirement System	Service Credit	Highest Avg. Compensation	Benefit Formula
MCERA	15 years	$50,000	2% at 55
SBCERA	5 years	$60,000	2% at 55

Each retirement system pays benefits separately.

When Martin retires he will receive two retirement benefit payments: one from MCERA that covers his years of service earned while working for the County of Marin, and one from SBCERA that covers his years of service earned while working for the County of San Bernardino. Both of these benefit payments will be based on the highest average compensation he earned in either retirement system. The tables below show the two different calculations. Martin will receive two checks totaling $2,000 per month, or $24,000 per year.

MCERA's Benefit Calculation		
Age factor for age 55		0.02000 (2%)
Years of service	x	15
Highest avg. compensation	x	$60,000
Annual benefit		$18,000
Monthly benefit		$1,500

SBCERA's Benefit Calculation		
Age factor for age 55		0.02000 (2%)
Years of service	x	5
Highest avg. compensation	x	$60,000
Annual benefit		$6,000
Monthly benefit		$500

Understanding Benefit Payment Options

The following examples have been simplified to illustrate possible monthly benefit amounts under each benefit payment option using Martin's information and do not consider all scenarios. Your individual situation may be different. More information on the benefit payment options can be found on page 17 of the *Classic Member Handbook*.

After calculating his benefit at a few different ages, Marin has decided to retire when he reaches age 55. When he's ready to retire Martin will have to name a beneficiary on his retirement application and elect a benefit payment option. Before he makes that decision he needs to understand how each benefit payment option works, what his beneficiary may receive, and how his own monthly allowance might be affected.

What is the highest allowance Martin can receive when he retires?

The **Unmodified Allowance** provides Martin with the highest allowance possible for his life, and his wife Sarah (or his dependent children) authomatically receive a continuance of 60% of what Martin was receiving. If Martin wasn't married or didn't have minor children, any beneficiary he named would receive a lump sum refund of his member contributions, if any remained. It is important to note that, on average, member contributions are paid out approximately 18-24 months after retirement with the Unmodifed Allowance.

Below is Martin's retirement benefit calculation for the Unmodified Allowance based on his membership in County Tier 3 (2% at 55), retiring at age 55 with 20 years of service and a highest average annual compensation of $50,000.

Age factor		0.02000 (2%)
Years of service	x	20
Highest average compensation	x	$50,000
Annual benefit		$20,000
Monthly benefit		$1,666

Upon Martin's death, his wife Sarah would receive $999 per month (60% of what he received).

If Martin wasn't married, had no children and named his brother Benny as his beneficiary, upon Martin's death Benny would receive a lump sum payment of any remaining member contributions in Martin's account.

What will Martin's monthly benefit be if he chooses Option 1?

Option 1 allows Martin to reduce his monthly benefit to provide a **lump sum of his remaining member contributions** to any beneficiary he chooses. The age of his beneficiary under Option 1 has no bearing on the amount his benefit is reduced. Instead, Option 1 uses slightly different calculation parameters to extend the life of Martin's member contributions from the average 18-24 months to approximately 10-15 years.

If Martin names his brother Benny as his beneficiary, upon Martin's death Benny would receive a lump sum payment of any remaning member contributions in Martin's account.

Martin's monthly Unmodified Allowance:	$1,666
Martin's monthly allowance under Option 1:	$1,662
Difference between Unmodified and Option 1:	-$4

What will Martin's monthly benefit be if he chooses Option 2?

Option 2 allows Martin to reduce his monthly benefit to provide a **100% continuance** to any beneficiary he chooses. The amount of Martin's benefit reduction will be based on his age and the age of his beneficiary and could be sharply reduced if his beneficiary is considerably younger than he is.

Martin wants to name his brother Benny as his beneficiary under Option 2. The table below shows how Martin's monthly allowance would change if his brother is 5 years younger than he is, the same age, or 5 years older.

	If Benny is 5 years younger	If Benny is the same age	If Benny is 5 years older
Martin's monthly Unmodified Allowance:	$1,666	$1,666	$1,666
Martin's allowance under Option 2:	$1,523	$1,549	$1,574
Difference between Unmodified and Option 2:	-$143	-$117	-$92

What will Martin's monthly benefit be if he chooses Option 3?

Option 3 allows Martin to reduce his monthly benefit to provide a **50% continuance** to any beneficiary he chooses. The amount of Martin's benefit reduction will be based on his age and the age of his beneficiary and could be sharply reduced if his beneficiary is considerably younger than he is.

Martin wants to name his brother Benny as his beneficiary under Option 3. The table below shows how Martin's monthly allowance would change if his brother is 5 years younger than he is, the same age, or 5 years older.

	If Benny is 5 years younger	If Benny is the same age	If Benny is 5 years older
Martin's monthly Unmodified Allowance:	$1,666	$1,666	$1,666
Martin's allowance under Option 3:	$1,592	$1,605	$1,619
Difference between Unmodified and Option 3:	-$74	-$61	-$47

Notes

Notes

Understanding Retirement

Classic 2% at 55

Contact Us

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