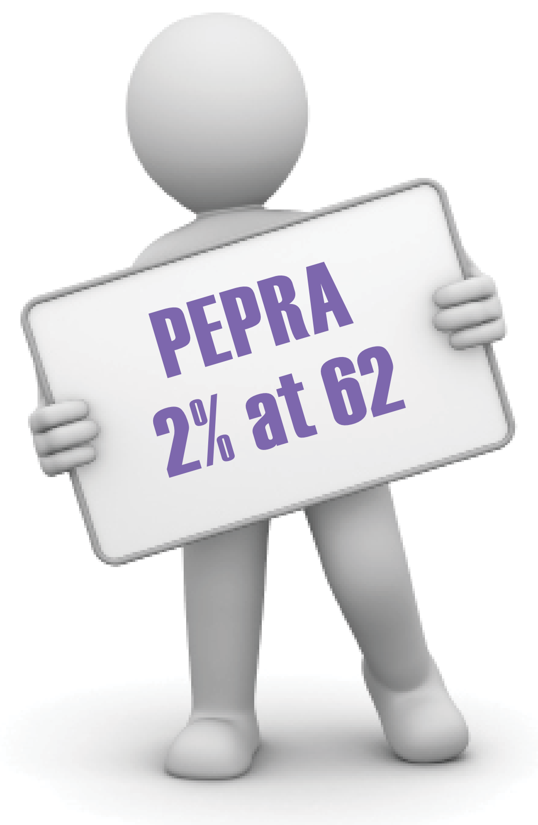
# Understanding Retirement

Examples of Concepts and
Calculations in Real World Scenarios




Marin County Employees' Retirement Association

# Meet Martin.

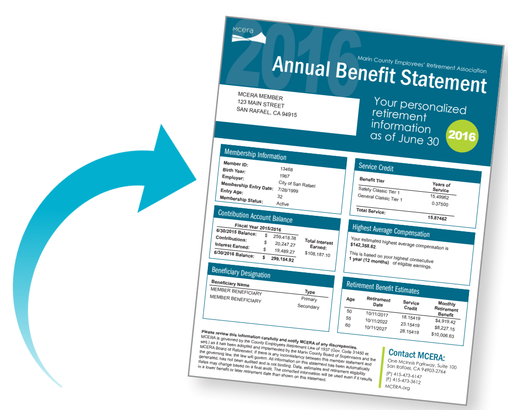
Martin is an MCERA member who works for Marin County. Although he worked as an extra hire for 3 years, he wasn't hired permanently until 2013 when he was 40 years old. Becoming a permanent hire in 2013 placed him in County general retirement tier 5 (2% at 62). He started paying contributions and began earning service credit toward a future retirement benefit.

Martin knows that he will be eligible for a lifetime retirement benefit when he's earned at least 5 years of service credit and reaches age 52, but he still has more questions. How will his benefit will be calculated? How he can he increase his benefit? What will his beneficiary receive?

## 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 5 |
| Benefit formula: | 2% at 62 |
| Membership date: | 2013 |
| Age at entry into membership: | 40 |
| Extra hire time: | 3 years |
| Accrued sick leave: | 1,950 hours (1 year) |
| Highest avg. compensation: | $50,000 |




### 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 the minimum service credit and retirement age requirements for his tier, but he still isn't sure exactly how his service credit 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 retirement 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 charts 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 in the boxes on the left 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

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 when 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 5, his benefit will be calculated using the 2% at 62 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 67.
- **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 as soon as he turns 52, if he waits to retire at age 62, and if he decides to wait even longer until age 67.

| | Age at Retirement | | | | | |
|---|---|---|---|---|---|---|
| | | 52 | | 62 | | 67 |
| Age factor | | 0.010 (1%) | | 0.020 (2%) | | 0.025 (2.5%) |
| Years of service | x | 12 | x | 22 | x | 27 |
| Highest average compensation | x | $50,000 | x | $50,000 | x | $50,000 |
| Annual benefit | | $6,000 | | $22,000 | | $33,750 |

## 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 52, 62 and 67.

| | Age at Retirement | | | | | |
|---|---|---|---|---|---|---|
| | | **52** | | **62** | | **67** |
| Age factor | | 0.010 (1%) | | 0.020 (2%) | | 0.025 (2.5%) |
| Years of service | x | 15 | x | 25 | x | 30 |
| Highest average compensation | x | $50,000 | x | $50,000 | x | $50,000 |
| Annual benefit after purchase | | $7,500 | | $25,000 | | $37,500 |
| *Annual benefit before purchase* | | *$6,000* | | *$22,000* | | *$33,750* |

## 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 15 years later. The table also shows how long it will take Martin to earn his money back if retires at age 62.

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 62) | $3,000 | $3,000 | $3,000 |
| Months to recoup the cost in retirement (retires at 62) | 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.

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 at the time of retirement. Contact the San Rafael Human Resources department for specific information.

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

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.

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 that after 15 years Martin decides to leave the County of Marin, is hired permanently with San Bernardino County and establishes reciprocity between MCERA and SBCERA. After working there for 7 years for higher pay, Martin decides to retire at age 62.

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 22 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 62 |
| SBCERA | 7 years | $60,000 | 2% at 62 |

## 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 $2,200 per month, or $26,400 per year.

| MCERA's Benefit Calculation | | |
|---|---|---|
| Age factor for age 62 | | 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 62 | | 0.02000 (2%) |
| Years of service | x | 7 |
| Highest avg. compensation | x | $60,000 |
| Annual benefit | | $8,400 |
| Monthly benefit | | $700 |

# 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 16 of the *PEPRA Member Handbook*.

After calculating his benefit at a few different ages, Martin has decided to retire when he reaches age 62. 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 benefit might be affected.

## What is the highest benefit Martin can receive when he retires?

The **Unmodified benefit** provides Martin with the highest amount possible for his life, and his wife Sarah (or his dependent children) automatically receives a continuance of 60% of what Martin was receiving. If Martin wasn't married or didn't have minor children, any other 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 benefit.

The table below shows Martin's retirement benefit calculation for the Unmodified benefit based on his membership in County General Tier 5 (2% at 62), retiring at age 62 with 22 years of service and a highest average annual compensation of $50,000.

| | | |
|---|---|---|
| Age factor | | 0.02000 (2%) |
| Years of service | x | 22 |
| Highest average compensation | x | $50,000 |
| Annual benefit | | $22,000 |
| Monthly benefit | | $1,833 |

Upon Martin's death, his wife Sarah would receive $1,100 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 is not married and names 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.

| | |
|---|---|
| Martin's monthly Unmodified benefit: | $1,833 |
| Martin's monthly benefit under Option 1: | $1,807 |
| Difference between Unmodified and Option 1: | -$26 |

## 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. Also, if Martin's beneficiary is not his spouse and is more than 10 years younger than him, the full 100% continuance may not be available due to Internal Revenue Code laws.

Martin wants to name his brother Benny as his beneficiary under Option 2. The table below shows how Martin's monthly benefit 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 benefit: | $1,833 | $1,833 | $1,833 |
| Martin's benefit under Option 2: | $1,606 | $1,647 | $1,689 |
| Difference between Unmodified and Option 2: | -$227 | -$186 | -$144 |

## 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 benefit 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 benefit: | $1,833 | $1,833 | $1,833 |
| Martin's benefit under Option 3: | $1,709 | $1,732 | $1,754 |
| Difference between Unmodified and Option 3: | -$124 | -$101 | -$79 |

# Notes

# Notes

# Understanding Retirement

## PEPRA 2% at 62

## Contact Us

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January 2019