

To: SEBAC Higher Ed Leadership

From: Dan Livingston

Re: Financial Issues from Delay in Processing Hybrid Purchases

Date: 10/22/14

You asked me to respond to a concern expressed to some of you that the delay in consummating Hybrid plan purchases due to the backlog could have a negative financial impact on members. To analyze this we need to look at the dual nature of the Hybrid plan.

As you know, the essence of the Hybrid is that members can choose the nature of their retirement plan when they retire instead of when they are employed. That is, the member can, upon retirement, choose to treat their entitlement as a defined benefit plan and get the same monthly benefit as they would get under the equivalent tier of SERS; or they can instead treat their entitlement as a defined contribution plan and receive their contributions, the employer contributions, and 4% annual interest on both. Those moving from ARP to the Hybrid have the same option – they don't have to make their final decision about the nature of their plan until they retire.

For those members who choose upon retirement to treat the plan as a defined benefit plan, there is no impact from the delay in consummating the Hybrid purchase, since the member begins accumulating service once he or she is placed in "pending status" (meaning the application is complete), not once the actual purchase is consummated. So in this respect the delay is irrelevant to the member.

For those members who choose upon retirement to treat the plan as a defined contribution plan, there is also no impact, but the explanation is a little more complex. *If* the 4% guaranteed interest wasn't calculated until after the purchase is completed, the member would be harmed financially because during the delay the money must be in the stable value fund which earns typically over 2 but well less than 4% interest. However, the 4% interest is calculated back to the same date (the pending status date), not the date the purchase is completed. So there is no harm done the member. The only special arrangement that needs to be made is that the stable value fund interest rate that the member earned during the delay period is offset against the 4% Hybrid rate, since otherwise the member would be getting interest twice on the same sum.

Finally some members have expressed concern that the purchase cost for past service is affected by the delay in invoicing. That is not correct. The purchase price is computed based upon the day the application goes into "pending" not the day the transfer is made.

I hope this answers the questions you've been receiving. The delay is unfortunate, but it attests to the strong interest members have in this new option (and unfortunately also to the very tight staffing levels at the Comptroller's office, like everywhere else in state service). But it does not have a negative financial impact on members.