



**Purchasing
Additional Retirement Credit**



(ARC)

The Los Angeles County Employees Retirement Association (LACERA) is governed by the County Employees Retirement Law of 1937 (CERL); LACERA retirement benefits are administered in accordance with this law. If there is any conflict between statements made herein, and provisions of the retirement law, the law will prevail.

For additional information, contact LACERA at:
626-564-6132 or 1-800-786-6464
or in person at
300 N. Lake Avenue, Suite 130
Pasadena, CA 91101-4199

Visit our web site: www.lacera.com



Purchasing Additional Retirement Credit Table of Contents

| | |
|---|---|
| Section I: General Information | 2 |
| Section II: Contributory Plans A, B, C, D | 7 |
| Section III: Non-Contributory Plan E | 8 |

Section I: General Information

1. Q: What is Additional Retirement Credit (ARC)?

ARC is credit that may be purchased to increase your service credit total. It is not based on actual employment.

2. Q: What are advantages of purchasing ARC?

Adding years of service credit by purchasing ARC will increase your total years of service credit. Since years of service credit is one of the factors used to calculate your retirement allowance, increasing your service credit through ARC will increase your monthly retirement allowance.*

**In certain circumstances, this may not apply to a service-connected disability. For more information, call 1-800-786-6464.*

3. Q: Are there limitations to ARC?

Additional Retirement Credit (ARC) adds to your total retirement service credit for purposes of calculating your retirement allowance only. However, regardless of ARC, the retirement allowance of a contributory member cannot exceed 100 percent of his or her final compensation. The allowance of a Plan E member cannot exceed 80 percent of final compensation.

ARC **does not apply** when calculating any of the following*

- Minimum eligibility requirements for a service or disability retirement
- Retiree health care benefits

- Cancellation of contributions for members who attain 30 years of service credit

**Disability retirement and 30-year cancellation of contributions do not apply to Plan E.*

4. Q: Who is eligible to purchase ARC?

Any active member with at least five years of actual County service may purchase ARC. (Plan E members gained eligibility to purchase ARC effective July 1, 2007.) County service may include Plan E service, dual account service (safety and general), and PERS transfer credit. Reciprocal service and purchased temporary time are not included. Deferred members are not eligible to buy ARC.

5. Q: How much ARC may I purchase?

The minimum ARC purchase is one year; the maximum purchase is a **total** of five years under any plan or combination of plans. For example, suppose you buy three years of ARC while you're a member of Plan E and later transfer to Plan D. The maximum amount of ARC you would be eligible to purchase in Plan D would be two years; in that case you would have purchased a total of five years of ARC, which is the maximum purchasable amount.

6. Q: How is the cost of ARC calculated?

The cost of ARC is calculated using a "present value formula," which represents the value of the increased retirement income you will receive during retirement, computed in today's dollars. In other words, the member pays the full actuarial cost of the additional future retirement benefit; by law, ARC cannot place any additional financial burden on the retirement system. The formula factors in your current age, retirement plan, and salary, along with actuarial assumptions for salary increases, age at retirement, and life expectancy.

Using the online ARC Calculator in the Benefits section of www.lacera.com will enable you to get an idea of your cost to purchase ARC. The calculator allows you to enter different determining figures to decide if you'd like to proceed with an ARC purchase. To determine the exact cost of your ARC purchase, you must request an official Cost Notification from LACERA.

7. Q: What types of funds may I use to purchase ARC?

Under federal law, ARC may be purchased with any of these types of funds:

- Payroll Deductions (using before or after-tax dollars)
- Qualified Plans: 401(k)/401(a)/KEOGH
- 457 Plan Fund Transfer: In-Service or After Termination
- IRAs: Non-Roth/Non-After Tax
- 403(b)
- After-Tax Dollars

LACERA does not accept termination pay for the purchase of ARC.

8. Q: What payment options are available?

You have a choice of three payment options: lump-sum payment, payroll deductions, or a combination of both.

- **Lump-Sum Payment:** a single payment for the total cost of your ARC, including interest calculated through the contract expiration date.
- **Payroll Deductions:** automatic monthly deductions from your paycheck, determined by dividing the total dollar amount of your contract by the term (number of months) of your contract. Interest is calculated over the term of the contract; therefore, the total amount you pay through payroll deductions is greater than it would be through a lump-sum payment. You designate whether you want the deductions taken on a before or after-tax basis.

- **Combination Lump-Sum Payment/Payroll Deductions:** allows you to pay an amount of your choice in a single upfront payment and pay off the balance of the contract through monthly payroll deductions.

9. Q: What is the significance of before-tax and after-tax dollars?

Before-tax dollars are funds that are not subject to income tax at the time they are earned; rather, they become taxable when you retire, terminate County service, or when your beneficiary receives them upon your death. Payroll deductions and rollovers from your County 457 plan and/or other tax qualified plans are examples of before-tax dollars.

After-tax dollars are funds — such as proceeds from mortgage refinancing or savings accounts — that were subject to income tax at the time they were earned. Since they have already been taxed, they are not subject to income tax at retirement, termination, or death. However, the interest earned on your contributions is taxable.

We recommend you consult with a professional advisor regarding tax and legal matters pertaining to your individual situation; LACERA does not offer tax or legal advice.

10. Q: What contract terms are available?

Contract terms (payment periods) range from one month to 120 months (ten years).

11. Q: Will I be permitted to change or revoke my contract after I sign it?

The ability to change or revoke your contract hinges on the type of payment method you select:

- Once you sign a contract that includes payroll deductions and/or payments using other **before-tax funds, the contract is irrevocable.**

- Only contracts based on payments made exclusively with **after-tax dollars may be revised or revoked.**

If you revoke your after-tax dollar contract before it is paid in full, LACERA will prorate the amount you have paid and credit your account for years/months of ARC accordingly.

LACERA cannot refund the money you already paid until you terminate County service; if you die, the money will be paid to your beneficiary.

12. Q: When do I begin making payments?

If you select monthly payroll deductions, your deductions will begin on the 15th of the month, within 60 days of LACERA's receipt of your signed Payment Contract.

13. Q: How do I initiate a lump-sum payment for an ARC purchase?

To make a lump-sum payment, you must include your check or money order with your signed Payment Contract. If you use a rollover or transfer for a lump-sum payment from a Horizons 457 Plan or County 401(k) Plan, you must call 1-800-947-0845 to request a rollover/transfer form from Great-West and send the signed form to LACERA. For rollovers of other before-tax funds, you must sign and complete the member section of a LACERA Rollover/Transfer Certification Form and **send the form to your plan administrator to complete, sign, and return to LACERA.** LACERA must receive a completed and signed Rollover/Transfer Certification Form directly from the Plan Administrator before your rollover or transfer can be accepted.

14. Q: What happens if I retire or terminate County service before completing my Payment Contract?

If you retire or terminate County service and defer your retirement (leave your contributions on deposit with LACERA) before your

contract is paid in full, you may complete the contract within 120 days after your effective date of retirement or termination.

If your contract is not paid in full, your retirement allowance will be prorated to include ARC for whole months already paid.

Section II: Contributory Plans A, B, C, D

1. Q: How will my ARC contract affect my monthly plan contributions?

Any payroll deductions for ARC will be made in addition to your current retirement contributions.

2. Q: I'm in a contributory plan, when I retire, will cost-of-living (COLA) adjustments apply to the ARC I've purchased?

Yes. The annual April 1 COLA percentage is applied to a retiree's total monthly retirement allowance, which includes any ARC purchased. (COLA increases are subject to annual approval by the Board of Retirement.)

3. Q: What happens if I receive a disability retirement before completing my Payment Contract?

If you are granted a disability retirement before completing your Payment Contract, your account will be credited for the years/months of ARC paid up to the date your disability retirement was granted. If you elect to complete the Payment Contract, you must do so within 120 days of the date your disability was granted.

4. Q: What happens if I die before completing my Payment Contract?

If you die before paying your contract in full, your eligible surviving spouse or domestic partner (or minor child) would be eligible to complete payment within 120 days after the date of death.

If your contract is not paid in full, the survivor allowance will be prorated to include ARC for whole months already paid.

Section III: Non-Contributory Plan E

1. Q: If I buy Plan E ARC now and later transfer to Plan D, can my Plan E ARC be converted to Plan D?

No. If you transfer to Plan D, your Plan E ARC will remain as Plan E service credit; you will have double accounts. At retirement, you will receive a combined allowance: a Plan E retirement allowance based on your previous period of Plan E service credit (including Plan E ARC) and a Plan D retirement allowance based on your Plan D service credit (including Plan D ARC). (Retirement eligibility rules apply.)

2. Q: When I retire, will cost-of-living (COLA) adjustments apply to the Plan E ARC I've purchased?

Yes. The annual April 1 COLA percentage will apply to Plan E ARC service credit and any Plan E service earned after June 4, 2002. (COLA increases are subject to annual approval by the Board of Retirement.)

3. Q: What happens if I terminate County service prior to becoming vested?

If you terminate County service before earning ten years of service credit (vested), LACERA will refund the amount you paid on your ARC contract.

4. Q: What is the maximum percentage of my final compensation that I can receive when I retire?

The retirement allowance of a Plan E member cannot exceed 80 percent of final compensation, regardless of ARC.





5. Q: Will my years of service affect my cost to purchase Plan E ARC?

After 35 years of service the cost of Plan E ARC is greatly reduced, so if you currently have 30 or more years of service credit, it may be advantageous for you to delay purchasing Plan E ARC until you reach 35 years of service. To find out the particulars regarding your situation, call 1-800-786-6464 to speak with a LACERA Retirement Benefits Specialist.

6. Q: Will my years of service affect the benefit I will receive from Plan E ARC?

Just as the cost of Plan E ARC is reduced after 35 years of service, so is the benefit it provides. Therefore, depending on the age of the member and the length of his or her County career, there are scenarios where a member could buy Plan E ARC at the full rate, but receive the benefit at a reduced rate. If you currently have 30 or more years of service credit, or if you believe you will work 30 or more years before you retire, **call 1-800-786-6464 to speak with a LACERA Retirement Benefits Specialist before you purchase Plan E ARC.**

Process to Purchase ARC:

- 1** Use the [lacera.com](https://www.lacera.com) Calculator to get a cost estimate to purchase ARC.

- 2** To purchase ARC, call LACERA at 1-800-786-6464.

- 3** LACERA sends you a Cost Notification Letter, a Payment Contract, and a personalized ARC Payment Schedule.

- 4** If you elect to purchase ARC, you must complete the contract and return it by the indicated expiration date.

- 5** Payroll deductions (if elected) will begin on the 15th of the month, within 60 days of receipt of your signed Payment Contract.



**Purchasing Additional
Retirement Credit**

(ARC)

LACERA

**Los Angeles County Employees
Retirement Association**
300 N. Lake Avenue
Pasadena, CA 91101-4199
(626) 564-6132 or 800-786-6464

www.lacera.com