

Purchased Service Credit Correction Process

Addendum to Frequently Asked Questions

April 27, 2011

At the initial information seminars given last week to Active Members with affected PSC contracts, there were three questions that warranted further clarification. This is an addendum to the original FAQs that were mailed to you on April 11.

If you have already turned in your Correction Option forms and have questions on your corrections option based upon information in this addendum, please contact the SDCERS Call Center at 619-525-3600.

1. What is the timeline for these correction letters and option forms?

Active member correction letters are dated April 11, 2011. The PSC Corrections resolution passed by the SDCERS Board last fall, which is available on the SDCERS website, indicates that members have 60 days to make a decision on how they wish to correct their PSC. If SDCERS has not heard from the member after 60 days, which is June 10, 2011, we will attempt to contact you and ask you to submit a completed corrections form. If we are unable to contact you within the next 30 days (90 days total from the date of the letter), or you do not turn in a completed options form by July 10, 2011, SDCERS will impose the default (Option 1) and issue a refund check.

The default option is a refund of your PSC which involves sending you a check, subject to 10% federal and 1% state tax withholding, regardless of how you originally paid for your PSC. Furthermore, you will lose service credit, and if retired or in DROP, you will need to repay overpaid benefits to-date, plus interest, and you will receive lower retirement benefits prospectively. Under the default option, you would lose the ability to rollback the refund to your SPSP or 401(k) account if that was the original source of your payment.

2. Explain how the interest is calculated and how it may change if I return my election form before June 30 or after June 30, 2011.

The San Diego Municipal Code states that money paid for purchase of service are treated the same as member contributions. Under the Municipal Code, Section 24.0904, interest is calculated on member contributions once per year, at June 30. The interest reflected on your correction form in Option 1, a refund, is through June 30, 2010. Likewise, the interest you have been charged in Option 4, the pay up option, is through June 30, 2010. We encourage everyone to submit their correction forms by June 10, the end of the 60-day period established in the SDCERS correction process approved by the Board. The sooner you return your election form, the sooner the PSC issue will be resolved for you and, if you choose Option 1, the sooner you will receive your refund. If SDCERS does not receive your completed corrections form until after June 30, but before July 10, 2011 (the expiration of the 90 day period which

triggers a default refund), your account will be credited with another year of interest. That will increase the amount of your refund shown in Option 1 in the corrections form you received in the mail. Similarly, if you are choosing Option 2 and return the form between July 1 and July 10, the higher PSC refund amount, applied to your repurchase, will reduce the Option 2 net amount due SDCERS.

An example of how the interest is credited:

	Member 1	Member 2
Lump-sum PSC payment	\$ 50,000	\$ 50,000
Date of PSC payment	10-Nov-03	15-Jul-04
Value with interest:		
- July 1, 2004 (@8%)	\$ 54,000	\$ -
- July 1, 2005 (@ 8%)	\$ 58,320	\$ 54,000
- July 1, 2006 (@ 8%)	\$ 62,986	\$ 58,320
- July 1, 2007 (@ 8%)	\$ 68,024	\$ 62,986
- July 1, 2008 (@ 8%)	\$ 73,466	\$ 68,024
- July 1, 2009 (@ 7.75%)	\$ 79,160	\$ 73,296
- July 1, 2010 (@ 7.75%)	\$ 85,295	\$ 78,977

SDCERS will not accept correction forms turned in after July 10, 2011; if no corrections form has been turned in by July 10, you will receive a refund as noted above.

3. Why (for some members) is the Option 2 price higher than 27%, if I'm a General Member, or 37% if I'm a Safety Member?

Option 4 allows you to make an additional payment to retain the number of years you originally purchased at the rate in effect on August 15, 2003 (a flat 27% for General Members and 37% for Safety Members). Option 2 is a two-step process – refund and repurchase. Once a refund is completed, an active member hired before July 1, 2005 is then eligible to repurchase up to five years under the PSC pricing formula now in effect, which computes the price based upon the member's age, service, and salary. Option 2 allows a member who wishes to purchase at the current rate to refund and repurchase in a single transaction thus avoiding the tax consequences that would occur if the refund were paid directly to the member.

Because the methodology for calculating the cost is different in 2011 than it was in 2003, the cost of service under Options 2 and 4 is different. Option 4 is based on the flat rate (27%/General or 37%/Safety) in effect on August 15, 2003, plus interest. Option 2 is based on the current rate that varies by age and service, but with NO interest, which is the same option available to anyone wishing to purchase time in 2011. Rates under Option 2 can be over 40% for some people. The rate that is best for you will be based on unique variables for each member related to a particular option (such as your age and service under Option 2 or the amount of interest that would accrue under Option 4).

Under the current PSC pricing the cost generally increases with age and service.