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FREQUENTLY ASKED QUESTIONS

Audience: Active Members of SCERS

Subject: Additional Retirement Credit ("ARC")

1.Q. What is Additional Retirement Credit?

- A. Additional Retirement Credit or "ARC" is credit that active members can purchase to increase their overall service with the Sacramento County Employees' Retirement System ("SCERS"). Unlike other credits available for purchase, it is not required that ARC be based on prior government or public agency service.

2.Q. What is the advantage of ARC?

- A. ARC increases service credit in SCERS, which generally increases the lifetime allowance payable for service retirement. However, because SCERS limits service retirement benefits to 100% of Final Compensation and provides disability retirement benefits that can exceed regular service retirement benefits, some members may find that ARC does not increase their allowance as expected.

3.Q. How is the cost of ARC calculated?

- A. ARC is calculated using a "present value formula", which projects the cost of the increased allowance at retirement and then converts or "discounts" the cost to today's dollars. Because state law specifies that ARC may not place any additional financial burden on the retirement system, members must pay the full actuarial cost of the service at the time of purchase. As a result, ARC calculations reflect current actuarial assumptions regarding investment returns, salary increases, retirement ages and other variables used to determine the retirement system's actuarial funding. It also means that as a general rule, an ARC purchase will be more expensive the closer a person is to retirement.

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4.Q. Who is eligible to purchase ARC?

- A. Active members who have earned 5 or more years of service credit through employment can purchase ARC from SCERS. Previous service purchases do not count toward the 5 year requirement. Deferred and retired members of SCERS are not eligible to purchase ARC.

5.Q. How much ARC can eligible members purchase?

- A. Active members can purchase up to 5 years of ARC, in minimum increments of 6 months.

6.Q. What payment options are available for ARC?

- A. Members may purchase ARC by (1) making a lump sum payment within a 90-day payment deadline, (2) effecting an irrevocable payroll deduction agreement for a fixed payment period, or (3) agreeing to pay a portion of the cost by lump sum and the remainder through an irrevocable payroll deduction agreement. Please note that a pre-tax payroll deduction purchase is governed by rules established under the federal Internal Revenue Code and that such rules may change over time.

7.Q. What payment sources are acceptable for ARC?

- A. Members may purchase ARC using (1) post-tax dollars held in personal savings or investment accounts, (2) pre-tax dollars transferred or rolled over from 403(b) plans or governmental 457 plans, and (3) pre-tax dollars deducted directly from wages paid by the County or a participating employer.

8.Q. Can members who are purchasing other service credit from SCERS also request payroll deductions for ARC?

- A. Yes. Members who are already purchasing other service credit under an irrevocable payroll deduction agreement may enter into another irrevocable payroll deduction agreement to purchase ARC. However, members may not enter into payroll deduction agreements for more than one ARC purchase at a time. This means that an ARC purchase being made through a payroll deduction agreement must be fully paid off before a new payroll deduction ARC purchase can be initiated.

9.Q. What is the maximum payment period for ARC purchases?

- A. Members who purchase ARC through an irrevocable payroll deduction agreement can request payment periods of up to 10 years. Because these deduction agreements are irrevocable, members who request the maximum period of 10 years should understand that their pre-tax payments cannot be adjusted during employment and cannot be cancelled unless they retire or terminate service. Accordingly, a member who elects to make an ARC purchase over a 10 year payroll deduction period will not be allowed to initiate a new payroll deduction ARC purchase until the 10 year term for the current ARC purchase has been completed.

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10.Q. What happens if members retire or terminate service prior to completing ARC purchases?

- A. Members who leave employment have 120 days to pay-off their outstanding payroll deduction agreements, which can be accomplished with (1) post-tax dollars held in personal savings or investment accounts or (2) pre-tax dollars rolled over from 403(b) plans or governmental 457 plans. Members may use funds from their terminal check to pay-off an outstanding payroll deduction purchase, but only on an after-tax basis. Members who do not pay-off their outstanding purchase agreement will receive credit for the portion of the ARC purchase already completed.

11.Q. Can members receive a rebate if ARC purchases do not provide the expected benefits at retirement?

- A. No. As with other service purchases, members cannot receive refunds of ARC purchases during employment or when they retire from SCERS to receive a lifetime allowance. This means that an ARC purchase will not be refunded even if the member cannot receive the full value of the purchase due to the 100% of final compensation limitation or because the member retires due to disability. However, if a member terminates employment prior to retirement, and elects to void all their accrued service by withdrawing all their contributions and interest, the funds contributed toward the ARC purchase will be included in the amount of the contribution refund.

12.Q. Will ARC be included for purposes of meeting retirement eligibility or any other benefits?

- A. No. ARC does not count toward eligibility requirements for service or disability retirement and is not used to determine if an eligible member has reached the 30-year cut-off date for contributions.

13.Q. How are ARC purchase estimates obtained?

- A. ARC estimates are obtained using the ARC calculator at www.scers.org. By entering their identification number and assigned password (which is printed on Annual Statements distributed by SCERS), members can retrieve cost estimates for possible ARC purchases under various payment plan scenarios. If they decide to pursue a purchase, members can also use the ARC calculator to print the personalized request form required for SCERS to prepare a final calculation and send a corresponding purchase agreement.

14.Q. How does a member determine if an ARC purchase makes sense?

- A. Members should go to the regular Retirement Planning Benefit Calculator on the SCERS website and add the proposed ARC service to the member's existing service credit and get an estimate of the benefit that would be expected based on the new, projected amount of service at various projected dates of retirement. Comparing the cost to make an ARC purchase with the additional benefits it is projected to produce (including consideration of the length of time it will take to recover the cost of the ARC purchase) is an important cost/benefit assessment that should be made by members thinking about making an ARC purchase.