

Hampshire County Retirement System

Memo to Advisory Council Members

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To: Advisory Council Members

From: Mary Baronas, Administrator

RE: CHAPTER 176 OF THE ACTS OF 2011, AN ACT PROVIDING FOR PENSION REFORM AND BENEFIT MODERNIZATION – PRELIMINARY OVERVIEW OF BENEFIT CHANGES FOR NEW MEMBERS WITH MEMBERSHIP DATE ON OR AFTER APRIL 2, 2012

This memo addresses sections of Chapter 176 that affect New Members (on or after April 2, 2012). The following does not change benefit rights of members prior to April 2, 2012. However, it is important to note that current or former members who take or have taken a withdrawal of contributions permanently forfeit all membership rights. Should they later re-enter public service and again become a member of a Retirement System, they do so as a brand new member subject to the rules in effect upon re-entry (new membership date). Although they are eligible to purchase prior creditable service, they cannot purchase prior membership rights such as deduction rates, minimum age, calculation factors etc.

Please note, the following is just an overview of changes as passed, however reading new legislation out-of-context with the rest of Chapter 32 presents more confusion than clarity. The real impact and how it all fits together is not totally clear yet. More information will follow.

Increase in Minimum Retirement Age

Section 11 amends G.L. c. 32, § 5 so that persons who become members of a Retirement System on or after April 2, 2012 and are classified in Group 1 cannot retire prior to attaining age 60. Group 2 and Group 4 are still eligible to retire at age 55. Sections 24, 25, 26 and 27 eliminates eligibility to retire at any age with at least 20 years of service for new members.

Average Annual Rate of Regular Compensation to Utilize for Calculating Allowances

Section 13 changes the number of years to be used in calculating retirement allowances. The calculation is to be based on the high 5 years of regular compensation paid to the member during the last 5 years of creditable service or any 5 consecutive years of

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creditable service, whichever is greater. This section applies to any member who becomes a member on or after April 2, 2012.

Anti-Spiking and Prorating for Group Classification Provisions

Section 14 outlines the method whereby compensation increases of more than 100% in any 2 consecutive years during in the 5 years prior to retirement will be eliminated and require the regular compensation average to be calculated by using the last 5 year average rather than 3 years. This section applies to any member who becomes a member on or after April 2, 2012.

Section 18 also deals with anti-spiking and provides that the average rate of regular compensation in any year is not to include amounts that are in excess of 10% of the rate in the 2 preceding years. This prohibition will not apply to modifications in the salary schedule negotiated in a collective bargaining agreement. This section applies to any member retiring on or after April 2, 2012. Further guidance will be issued at a later date.

Section 14 also mandates pro-rating benefits in cases where a member entered service on or after April 2, 2012 and has creditable service in more than one Group Classification. This provision becomes effective on April 2, 2012. Any active member as of April 2, 2012 may elect to receive a retirement allowance based on the pro-ration which is mandatory for those entering service on or after April 2, 2012. As the time of actual implementation nears, PERAC will issue specific guidance for these provisions.

New Age Factors for Retirement Calculations

Sections 15, 16, 17, and 23 establish new age factors to be applied to any member who becomes a member on or after April 2, 2012. In general, the new factors will increase the age when a member's allowance will be calculated using the maximum age factor. The new factors also increase the minimum age at which a member can retire. There is also a new factor table to be used for members with more than 30 years of creditable service. The 80% maximum amount that a member can receive is amended to reflect the use of a high 5 year average annual amount of regular compensation in calculating the allowance. These new factor tables and 80% limitation apply to members who become members on or after April 2, 2012.

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The age factors for persons who became members prior to April 2, 2012 remain the same. The factors also remain the same for persons who were members prior to April 2, 2012 and who may have breaks in service but have uninterrupted membership after that date.

Treatment of Periods of Leave During Which Creditable Service is Granted

Section 19 amends G.L. c. 32, § 5(3)(b) to reflect the change in the number of years used in a retirement calculation from the average annual rate of regular compensation from 3 years to 5 years. This section applies to any member who becomes a member on or after April 2, 2012.

Termination Allowances Eliminated for New Members

Sections 24, 25, 26 and 27 eliminate the termination allowances contained in G.L. c. 32, § 10(1) & 10(2) and adds a new section 10(2A). New members with at least 10 years of creditable service and who are not reappointed, who are discharged without moral turpitude, who accept a position that requires resignation from an elected position in the General Court, whose position is abolished or who voluntarily resigns shall have the right to apply for superannuation upon attaining the minimum retirement age, contained in the newly enacted age factor tables, provided that they have left their funds in the Retirement System. The newly enacted factor tables will be utilized in calculating the allowance. These sections apply to any member who becomes a member on or after April 2, 2012. These sections become effective April 2, 2012.

Contribution Rates Changed

Section 39 adds new provisions to G.L. c. 32, § 22(1)(b) and establishes a new contribution rate for Group 1 members who become members of a Retirement System on or after April 2, 2012. The contribution rate of these members will be reduced to 6% when the 30 years of creditable service is attained. The new contribution rate applies to members who become members on or after April 2, 2012.