

**Employees' Retirement System of Rhode Island
And
Municipal Employees' Retirement System**

Regulation No. 11

Promulgated: December 19, 2001

Effective: January 1, 2002

Rules Regarding the Operation and Administration of Rhode
Island General Laws 16-16-8.1, 36-9-41 and 45-21-64 regarding
Purchase of service credits payable by installment

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Section One: Regulation Summary

This regulation governs procedure for installment payments on optional service credits purchases (OSC) to members of the State and Teacher Retirement System (ERS) and Municipal Employees Retirement System (MERS).

Section Two: Definitions

Regular Interest – Shall mean interest paid on a lump sum purchase as defined in 36-8-1(13)

Active Member – Shall be defined as is in RIGL 36-8-1(19), 16-16-1(16) and 45-21-2(20)

Installment Interest – Shall be defined as the actuarial assumed rate of return adopted by the board pursuant to RIGL 36-8-13

Prorated Agreement – Shall be calculated using a fraction. The numerator shall be the number of payments made on the installment agreement and the denominator shall be the total number of payments required to complete the agreement. This fraction shall be multiplied by the total years of service being purchased through the installment. For example:

	Total installment payments – 12
	Total time being purchased – 7years, 0 months, 0
days	
	Installment payments made before termination –
6	
	(a) $6/12 = 0.5$
	(b) $0.5 \times 7\text{years} = 3.5$
	Service awarded at time of termination is 3 years,
	6 months, 0 days

Section Three: Procedure

1) ERSRI will first create a cost calculation for the service being purchased based on parameters (member-specific data, rules relative to the plan, type of service being purchased, etc) pursuant to Rhode Island General Laws. The member shall select to purchase the service credits through either a lump-sum payment or an approved installment plan.

a) A member may not enter into an installment agreement and make a lump sum payment, nor may a member enter into a lump sum

agreement and make installments. The payment selection made is irrevocable consistent with federal law.

- 2) Installment agreements are calculated on an amortized payment schedule using interest at the actuarial assumed rate of return adopted by the board.
 - a) Neither installment interest or regular interest is posted to a member account. Neither is refundable. Only the principal portion (or the portion that is effectively the missing contributions on wages being replaced) is posted to the member account.
 - b) Agreements, which will be paid using "rollover" funds, must be set up to accept rollover money at their creation. An agreement that has not been set-up to accept rollover funds must be cancelled, and a new agreement created if the member wishes to pay with rollover monies. This will require the cancelled agreement to be prorated.
 - c) The service is not awarded nor are contributions posted to the member account until the agreement has been *completed* or *prorated* due to cancellation of the agreement. Therefore, member account balances are not affected over the life of an installment agreement. In the member annual statement, summary information regarding "in process" and "completed" purchase agreements will be included.
 - d) Payment frequencies from active Member Agencies on installment agreements are set at one (1) per month. Early payments can not be applied to principal, thereby changing the structure of the agreement. Therefore, the total interest on an installment payment plan will remain the same throughout the life of the agreement.
 - e) Payments on installment agreements may be accepted from active Member Agencies (via payroll deduction.) The payment frequency is fixed at one (1) per month; the employer shall conform to all the reporting and transmittal of OSC funds on a monthly basis, regardless of their wage and contribution reporting frequency.
 - (1) In the event, an employer becomes delinquent remitting payments to ERSRI on installment agreements, the member shall not be held in default and the agreement shall not be cancelled. ERSRI may seek penalty interest from the employer.
- 3) Pursuant to RIGL 45-26-56, 45-21-12.1, 36-9-20, and 16-16-8, requiring the present value of accrued benefits (PVAB) be transferred from one

employer reserve to another at the time a member changes employment, installment agreements must be prorated and posted to the member account at the time of the termination of employment. Proration of an agreement results in service and contributions being reported to the plan and employer reserve that the member belongs to at the time the agreement is entered into.

- a) Therefore, since the agreement is irrevocable the member will be required to continue the purchase of the remaining allowable service with a new agreement after being enrolled with the new employer.

Section Four: General Policies

- 1) Should someone cease being an active member prior to completion of the installment agreement for any reason, including death and termination (both voluntary and involuntary), the agreement will become null and void at the effective date of termination and will be prorated at the time of termination. If applicable, the member may have the option of paying in lump sum, the amount necessary to complete the service credit originally provided in the installment agreement. These payments must be received by ERSRI within 30 business days from the effective date of termination.
 - a) In case of the death of an active member with an active installment agreement, the beneficiary shall be provided the option of completing the agreement by making a lump-sum payment for the outstanding balance of the agreement at the time of the participants death. The procedure shall be that the installment agreement becomes null and void at the effective date of termination and will be prorated at the time of termination.
 - i) If applicable, funds from the death benefit payment may be used toward the lump-sum payment of the cancelled agreement. The beneficiary will be required to execute ERSRI transfer documents to effectuate the transfer of the death benefit.
- 2) If an agreement needs to be prorated for any reason and a lump sum is computed, interest on the lump sum shall be computed to the date of termination of employment, death or cancellation of the agreement.

Section Five: Effective Date

This regulation shall take effect January 1, 2002