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April 26, 2010

To: Retirement System Participants

From: Board of Trustees

Subject: Amendment to Administrative Rule Part 6 – Additional Employee Contributions.

The provisions of Chapter 218 (Plan Document) specifically Section 218:6 V, provide that the Board of Trustees “shall produce a Summary Plan Description, By-Laws, and Administrative Rules which are not inconsistent with this act.”

The By-Laws of the Board of Trustees, Article XIV, paragraph 14.06 require that proposed amendments to Administrative Rules be posted thirty (30) days before their adoption “in order to afford interested persons an opportunity to submit data and make their views known either orally or in writing...”

The trustees are seeking to amend the existing language in Part 6 at the recommendation of the system’s actuary and legal counsel so that it prohibits additional contributions by vested deferred members in the plan as described below. All existing language shall remain and new language is indicated by ***bold italics***.

Comments may be submitted in writing before the close of business on Friday, May 28, 2010 to:

Gerard Fleury – Executive Director  
Manchester Employees’ Contributory Retirement System  
1045 Elm Street – Suite 403  
Manchester, NH 03101

Or by email to [Gfleury@ManchesterRetirement.org](mailto:Gfleury@ManchesterRetirement.org)

Questions and comments may also be directed to Gerard Fleury by phone at 624-6506 Monday through Friday between 8:00 AM and 4:00 PM

## **PART 6: ADDITIONAL EMPLOYEE CONTRIBUTIONS**

**6.1 Purpose:** Chapter 218:9, III as enacted by the Legislature in the 2003 session, provides that subject to the adoption of administrative rules and approval of the Trustees, Members may make additional contributions to the Retirement System *prior to termination of active service with the employer* to fund an additional annuity benefit or to offset the actuarial reduction for early retirement. The purpose of this rule is for the Retirement System to provide for the orderly administration of additional contributions by Members for the purposes set forth above.

**6.2 Additional Benefits:** The maximum benefit that can be purchased is a benefit that combined with the Member's regular annuity will equal up to 50% of the Member's Average Final Earnings at the selected retirement date. Alternatively, a Member can purchase a benefit that will offset the actuarial reduction for early service retirement set forth in Chapter 218:14, I. Members must select either the increased Final Average Earnings Benefit or the early service retirement offset benefit. Members may not purchase additional service. If a Member's additional contributions result in the Member receiving a benefit at retirement that exceeds the limit described above, the excess contributions will be refunded to the Member with regular interest.

**6.3 Calculation of Additional Contributions:** Upon written request by means of an Additional Contribution Request form, the Retirement System will determine the additional contribution to be made by the Member if the Member desires to receive the maximum benefit or to offset the early retirement reduction. The additional contribution will be actuarially determined based on the Member's age, base rate of pay, years of service and other information available at the time of the Member's request. Members will be informed that the actual benefit that the Member will receive if additional contributions are made will differ from the initial projections because at the time of retirement, actual compensation levels and interest rates will differ from the assumptions used in the actuarial calculations. The Retirement System will not automatically recalculate the amount of additional contributions needed to fund the additional benefit. A Member must contact the Retirement System for a recalculation if actual wages differ materially from anticipated levels used in an original calculation. Members will be required to pay an administrative fee to offset the actuarial cost incurred by the Retirement System to calculate the additional contributions. This fee will consist of an initial payment of fifty dollars (\$50) which will be used to determine the amount a member would have to contribute to achieve their desired benefit level. Before a member is allowed to formally commence such payments, an additional fee of one hundred

dollars (\$100) will also be required of the member. The payment of the additional one hundred dollars (\$100) shall entitle the member to free recalculations but not to exceed one per plan year.

**6.4 Payment of Additional Contributions:** A Member must complete an Additional Contribution Request form to deposit additional contributions, and file it with the Retirement System. Additional Contributions made by the Member cannot be paid with tax deferred money and rollovers from tax deferred plans are not allowed. Additional contributions, unlike the regular employee contribution, must be made on an after-tax basis. A Member may choose to contribute a lesser amount of additional contributions, or not at all, but not a greater amount. Upon approval by the Board of Trustees, the Retirement System will mail the Member a statement of additional contributions identifying the maximum annual amount that a Member may contribute between January 1 and December 31 of the year. A Member may remit additional contributions through payroll deductions if the City of Manchester is agreeable. Members must provide the City with a copy of their statement of additional contributions. Members whose additional contributions are not remitted through payroll deduction will need to include a voluntary additional contribution form with each of their payments. The Retirement System will not send reminder notices to Members. If the contributions are remitted through payroll deduction, the Member must also notify the City payroll department of the change. Payments for Additional Contributions are limited at active contributing members. *Vested deferred members are prohibited from enrolling in the Additional Contribution program or from adding to their account balance after they become vested deferred members.*

**6.5 Interest on Additional Contributions:** Additional contributions will earn regular interest as defined in Chapter 218:4, XIV. The regular interest rate (currently 5.0%) is subject to change, which will affect the funding of an additional annuity through additional contributions.

**6.6 Return of Additional Contributions:** At retirement, the Member may choose to receive the additional contributions as an additional annuity, or, the Member may withdraw the additional contributions in cash, plus credited interest, in lieu of an additional monthly annuity. Members also are entitled to receive a return of additional contributions at any time after termination of employment. Both the regular contributions and additional contributions must be withdrawn if the Member chooses to take a refund of contributions. However, Members may not withdraw additional contributions or interest earnings, or collect an additional annuity prior to termination of employment. If a Member is awarded a work-related disability under Chapter 218:15, III, the additional contributions will be refunded with regular interest. If death

benefits are paid under Chapter 218:16, I, the additional contributions will be refunded with regular interest. If death benefits are paid under Chapter 218:16, II, the additional contributions will be used to increase the service retirement allowance as described in Chapter 218:16, II(b). If regular contributions are refunded in connection with a death benefit described in Chapter 218:16, or in any other situation addressed by Chapter 218:16, the additional Member contributions will also be refunded with regular interest.

**6.7 Miscellaneous:** Because all additional contributions are made on an after-tax basis, the additional contributions will not be reported as taxable income to the Member at Retirement unless by special arrangement, not otherwise prohibited by law, the employer consents to make such payments on behalf of the employee. However, interest earnings on additional contributions will become taxable income to the Member when received from the Retirement System as a lump-sum distribution or an additional annuity.

**6.8 COLA on Additional Contribution Portion of Monthly Benefits:** When a member elects to retire and further elects to receive the payment of any additional contributions in the form of an additional monthly annuity, and following that election, at such time as the Board of Trustees are successful in granting a cost of living adjustment for retirees otherwise qualified to receive such increases pursuant to Chapter 218:20 and Administrative Rule 7, then the application of the said COLA shall not apply to the additional contribution portion of the monthly benefit in effect. The cost of COLAs have been included in the cost calculation provided by the Actuary for the purchase of additional benefits under the provisions of Chapter 218:9,III and have been based upon an assumption of a 3% annualized COLA. Whereas this 3% COLA is pre-funded, it shall be automatically applied to the additional contribution portion of that monthly benefit after the completion of one year from the effective date of retirement. Under no circumstances shall any COLA be awarded on additional contribution amounts withdrawn as a lump sum at the time of retirement.