

CITY OF ANN ARBOR
EMPLOYEES RETIREMENT SYSTEM

RETIREMENT SYSTEM INTEREST CREDIT POLICY

APC Approved: February 20, 2018

Board Adopted: June 21, 2018

I. GENERALLY

The City of Ann Arbor Employees' Retirement System ("Retirement System") exists for the purpose of providing retirement and survivor benefits to eligible City of Ann Arbor employees and beneficiaries upon retirement from City employment. Pursuant to Section 1:620 of the City of Ann Arbor Employees' Retirement System Ordinance (the "Retirement Ordinance"), the Board of Trustees of the Retirement System (the "Board" or "Board of Trustees") is vested with the authority and fiduciary responsibility for the proper administration, management and operation of the Retirement System, and for construing and making effective its provisions. In accordance with its fiduciary duties and responsibilities, the Board is authorized to adopt rules and regulations regarding the administration of the Retirement System, including, but not limited to the crediting of interest credited to a Member's Accumulated Contribution account under the Retirement System.

II. PLAN PROVISIONS

A. Definitions

(1) Section 1:552.1(1) of the Retirement Ordinance defines the term "Accumulated Contribution" as "[T]he sum of all amounts deducted from the compensation of a Member and credited to the Member's individual account to the Annuity Savings Fund ... together with applicable interest thereon..."

(2) Section 1:552.1(2) of the Retirement Ordinance defines the term "Accumulated Contribution Interest Rate" as "[T]he interest rate used for the growth of Accumulated Contributions credited to a Member's individual account in the Annuity Savings Fund which rate shall, for each calendar year, be the average annual total return rate on the investments of the Retirement System for the ten years preceding such calendar year. Such interest credited under this section 1:552(2) shall be compounded quarterly."

B. Membership

(1) "Member" is defined at section 1:552.2(3) of the Retirement Ordinance as "any person who is included in the membership of the Retirement System pursuant to section 1:553."

(2) Section 1:553 of the Retirement Ordinance further clarifies membership in the Retirement System and states in relevant part as follows:

- (a) The membership of the Retirement System shall include all officers and employees of the City. . . .

* * *

- (d) No person shall be eligible for Membership in the Retirement System:

- (1) Solely by reason of Membership on the Council.
- (2) Solely by reason of Services provided to the City or the Board on a fee or contractual basis.
- (3) Who received Compensation from the City of less than \$400.00 per year for 3 consecutive years.
- (4) Solely by reason of employment by the City as a school crossing guard.
- (5) Solely by reason of employment by the City on a temporary basis.
- (6) Who is the City Administrator, City Attorney, City Clerk, the head of any administrative department, the head of the City's personnel/human resources function, or Mayor's secretary, provided that the individual employee enters into alternative Retirement arrangements at the time of initial employment, meeting the applicable requirements of Treasury Regulation Section 1.401(k)-1(a)(3)(iv).
- (7) Who is an employee of the Board and upon commencement of employment, has not been determined by the Board to be a Member of the Retirement System.
- (8) Who is a Retirant of the Retirement System.

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- (f) In all cases of doubt, the Board shall decide who is a Member within the meaning of the provisions of this chapter.

(3) Membership in the Retirement System ends upon retirement or termination of employment with the City, prior to attaining status as a Terminated Vested Member of the Retirement System as defined at section 1:552.3(17) of the Retirement Ordinance.

(a) Terminated Vested Members who are eligible for a Deferred Vested Retirement Allowance remain members of the Retirement System solely for purposes of drawing a deferred benefit upon satisfying the applicable eligibility requirements.

III. POLICY

A. Membership

(1) An individual ceases to be a Member of the Retirement System upon his/her effective date of retirement or separation from employment prior to attaining status as a Terminated Vested Member of the Retirement System, whichever occurs first.

B. Crediting of Interest

(1) Interest shall be credited only to active Members and Terminated Vested Members of the Retirement System at the rate provided for at section 1:552.1(2) of the Retirement Ordinance, or as otherwise specified via the applicable collective bargaining agreement.

(2) Interest shall cease to be credited immediately upon an individual's termination of membership in the Retirement System, whether as a result of the individual's retirement or separation from service prior to attaining vested status.

(a) Non-vested former members who return to employment with the City prior to withdrawal/distribution of his/her Accumulated Contributions will not be entitled to interest on said contributions for that break in service in which the individual was not a Member of the Retirement System.

IV. EFFECTIVE DATE

This Policy shall become effective January 1, 2018 and shall not be applied retroactively to reduce any previously earned interest under prior provisions of the Retirement System and/or the Board's rules and regulations.

V. POLICY REVIEW

The Board shall review this *Retirement System Interest Credit Policy* from time to time as may be appropriate or necessary. The Board may amend this policy by majority vote.

ADDENDUM A

ILLUSTRATIONS

Illustration 1 – Normal or Early Retirement

Facts: Employee A qualified for a Normal or Early Retirement under age and service requirements and has elected to retire.

Accumulated Contribution and Interest Calculation: Interest shall be credited on Employee A's Accumulated Contributions as of the date immediately preceding his/her effective date of retirement.

Illustration 2 – Death of a Non-Vested Employee

Facts: Employee B did not satisfy the required vesting service requirement for retirement benefits prior to his/her death.

Accumulated Contribution and Interest Calculation: Interest shall be credited on Employee B's Accumulated Contributions up to the date of death, which would be payable in a lump sum to Employee B's designated Beneficiary or legal heirs if no Beneficiary is designated or living at the time of Employee B's death. The lump sum benefit would include the contributions and interest up to the date Employee B died.

Illustration 3 – Terminated Vested Members

Facts: Employee C has separated employment with the City of Ann Arbor after attaining vested status (5 years or 10 years depending on date of hire) and elected to leave contributions and interest with the Retirement System.

Accumulated Contribution and Interest Calculation: Interest shall continue to be credited to Employee C's Accumulated Contributions until Employee C withdraws all of his/her Accumulated Contributions from the Retirement System or as of the date immediately preceding his/her Deferred Retirement effective date, whichever occurs first.

Illustration 4 – Non-Vested Employees

Facts: Employee D has separated employment with the City of Ann Arbor before attaining vested status (5 years or 10 years depending on date of hire).

Accumulated Contribution and Interest Calculation: Employee D is entitled to interest on his/her Accumulated Contributions as of the date immediately preceding the date of termination of employment. Should Employee D return to employment with the City of Ann Arbor prior to distribution of his/her Accumulated Contributions from the Retirement System, interest will not be credited for that time in which Employee D was separated from service with the City.