

**Responses to questions regarding interest rates applied service purchase and member account balances
Compiled by NASRA December 2010 – January 2011**

What interest rate does your plan use to calculate the cost to purchase service, and how is this rate determined? Does your plan accept installment payments for the purchase of service? Does your system accept credit card payments for the purchase of service? What rate of interest is applied to member account balances, and what is the basis of this interest rate?

System	Interest rate	Interest Rate Basis	Installment payments	Credit cards	Account balance interest rate	Account balance interest rate basis
Arizona SRS	To reinstate previously forfeited service credit, the interest rate is the discount rate, which is currently 8.0%. Other types of purchase are calculated using an Actuarial Present Value method.	Statute	Yes	No	The ASRS discount rate of 8.0%, except that for the purposes of taking a forfeiture payout, the interest rate is 4.0% on balances after 7/1/05.	Board
CalPERS	7.75%, based on current discount rate	Board	Yes	No	6.5%	Statute
CalSTRS	Based on the assumed investment return which is currently 8%, but for purchases on or after July 1, 2011, will be 7.75%	Adopted by the board each spring, for application for the following FY, based on the board's adopted return on investments, as required by law, or average passbook rates, also as required by law	Yes	No	based on passbook rates, currently 1%	Adopted by the board each spring, for application for the following FY, based on the board's adopted return on investments, as required by law, or average passbook rates, also as required by law
Colorado PERA	8.0%, based on current discount rate	Board	Yes	No	3.0%	Board
Florida RS	6.5%	Statute	No	No	We do not pay interest on member account balances (FRS is non-contributory for most participants.)	
Georgia TRS	4.5%	The Board of Trustees sets the rate and the rate is not linked to any particular data.	No	No	4.5%	The Board of Trustees sets the rate and the rate is not linked to any particular data.
Idaho PERS	There is no interest on a "purchase of service." Buybacks, delinquent contributions, etc. are charged reinstatement interest, the rate for which shall equal the	Statute	No	No	Greater of 90% of the rate of return on the PERSI fund net of all expenses for the FY- ending immediately prior to the calendar year as reported in the	Statute

System	Interest rate	Interest Rate Basis	Installment payments	Credit cards	Account balance interest rate	Acct balance interest rate basis
	average of the prime rate on June 30 of the latest 3 years, plus 1%.				actuary's annual valuation report or 1% For the 2011 calendar year regular interest is calculated to be 10.74% (the greater of 90% of PERSI return net of all expenses (11.93%) or 1%)	
Illinois MRF	7.5%	Based on discount rate, as set by board	Yes	No	We do not pay interest on member account balances	
Indiana PERF			Yes	No	Varies by plan according to statutory provisions. For three plans, rate is based on the rate of return for the investment options the member elects. In addition, the board sets an annual fixed rate of interest for one of the investment options for two of those plans. In the other plans a rate is set by statute or determined by the board.	
Iowa PERS	7.5%	Based on discount rate as set by board	No. Service purchases are calculated on an actuarial cost basis. A cost letter indicates the cost per service quarter credit, good for 6 months. The member may purchase 1 or more quarters at the cost within the 6 month period.	No	One percent above the average interest rate of a one-year certificate of deposit (CD rate is determined as of the first business day of each year).	Statute
Kansas PERS	8.0%, based on investment return assumption	Statute permits board to set rate	Yes	Yes	4% for members hired after 7/1/93 and 8% for members hired prior to 7/1/93.	Statute
Kentucky RS	Most types of service purchase use an actuarial factor as part of	The factor used to help determine the cost of	Yes	No	For members who began participating before 9/1/08,	Statute

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	the cost calculation.	service is calculated by our independent actuary and adopted by the Board. It is designed to account for 100% of the actuarial cost to the Systems of the service credit purchase.			Board determines annually, but with a 2% minimum. For members who began participating after 8/31/08, 2.5%.	
Louisiana SERS	To purchase refunded LASERS service, 8.25% compounded annually. For all others, calculation is actuarially calculated using a complex, multi-faceted formula which includes factors such as the 8.25% rate, age, salary, etc.	Based on investment return assumption, which is set by statute.	No	No	We do not pay interest on member account balances	
Louisiana TRS	For refunded service purchase it is our discount rate of 8.25%; for other service purchases it requires the member pay the actuarial cost to totally offset the increased liability to the system	Interest rate is the discount rate approved by the board per the statute. The payment of actuarial cost is in statute.	No	No	We do not pay interest on member account balances	
Massachusetts SERS	Generally 4.125% for most service purchases	1/2 of the assumed rate of return established for pension fund investments (8.25%) for the SERS	Yes	No	3% when a member withdraws from service and seeks return of contributions with less than 120 months of creditable service. Interest on the contribution refunds for those involuntarily withdrawing from service or for those with more than 10 years of creditable service is set at regular interest. This rate is established annually based on a review of passbook savings rates; for 2010 is 0.3%. This is also the rate applied to active member account balances.	
Michigan MERS	8.25%; 8% fixed based on the discount rate, 0.25% charge for administering the installment pgm		Yes	No	0.427%, based on the 1-yr T-Bill rate	Board

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Michigan ORS	Varies by purchase type...out of system and military are 5% of highest previous wage; our most common purchase is based on an actuarial table using age and years of total service to arrive at the multiplier.	The rate are based either in statute for some purchases, and for our most common purchases it is based on a board determined actuarial rate.	Yes	No	For public school ERS, there are 2 rates...market rate for member contributions on reportable compensation and a flat 6% on their account for service credit purchases.	
Minnesota TRA	8.5% compounded annually	Investment return assumption, per statute	No	No	6%, compounded annually through June 30, 2011. After June 30, 2011, the interest rate will drop to 4%, compounded annually.	Statute
Minnesota SRS	8.5% compounded annually	Investment return assumption, per statute	Up to three	No	6%, compounded annually through June 30, 2011. After June 30, 2011, the interest rate will drop to 4%, compounded annually.	Statute
Mississippi PERS	8.0%	Tied to investment return assumption, which is set by the board	Quarterly increments via lump sum payments.	No	3.5%	Board
Missouri Highway Patrol & Department of Transportation	8.25	Tied to investment return assumption	Yes	No	4%	Statute
Missouri PSRS	Most purchases of service are calculated using the following formula: Highest Salary Rate on Record x Current Contribution Rate (Employer & Employee) x Years of Service. Interest does not accrue on these purchases, however, any unpaid balance is recalculated every 10/1 based on changes in the member's salary rate and the contribution rate. Some purchases are calculated differently and are subject to the accrual of interest. The current rate of interest is 8%.	Tied to the discount rate of 8.0%, as set by the board.	Yes	No	Interest is applied each 6/30 on the balance as of the previous 6/30. The rate set for 6/30/10 was 1%. The rate set for 6/30/09 was 2%.	Board

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Missouri SERS	8.5%	Tied to investment return assumption, which is set by the board	Yes	No	For members hired before 1/1/11, plan is non-contributory. For those hired after 12/31/10, fund will pay 4.0% on account balances.	Statute
New Hampshire RS	8.5%	Based on rate paid to active member accounts, which is set by the board	Allows installments with 1 type of purchase: employer oversight. Members can choose installment from 1-6 years. Payments are yearly and due by 6/30 each year.	No	8.5%	Board
New Mexico ERB	8.0%	Tied to investment return assumption			Based on the 5 year U.S. Treasury yield in effect as of the last business day in March of the calendar year. That rate takes effect for the FY beginning 7/1 and contributions on account are compounded quarterly at the rate in effect for that time period.	
New Mexico PERA	8.0%	Tied to investment return assumption, per board	No	No	5.25%	Board
Nevada PERS	Actuarial factors are used to determine cost of purchase of service; 8.0% is applied to installment payments	Tied to investment return assumption, per statute	Yes	No	We do not pay interest on member account balances	
North Dakota PERS	Actuarially neutral rate based on age and service. Sick leave is at the contribution rate of 8.12% plus 1.14% for the retiree health credit.	Admin code as approved by the board	Yes	No	7.5% paid on a monthly basis.	One-half percent less than the assumed rate of return (8%), per board-approved admin code

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Ohio PERS	One of a range of rates and methods applicable to each of many types of service purchase.	Statute authorizes board to set rates.	Yes	No	Currently 1.0%	Statutes authorize board to set rate
Ohio Police & Fire	For military service purchases, 6% compounded from date of discharge to date of purchase. For civilian service purchases, 8.25% compounded from date of withdrawal of contributions to date of purchase.	For military service purchases, board sets the rate. The rate charged for purchase of civilian service is the discount rate adopted by the board.	Yes	No	We do not pay interest on member account balances	
Ohio School ERS	7.5%	Board	Yes	No	We do not pay interest on member account balances	
Ohio STRS	8%; for certain service, the rate to purchase credit earned after 7/1/89 is equal to 50% of the liability.	Investment return assumption, per board	Yes	No	The current rate for service up to 5 years is capped at 4%. For service equal to or greater than 5 years the cap is 6% with a 50% match from the employer funds and interest. Current rates being paid are 3% for 3 or more years' service and 2% for less than 3 years' service.	Determined by the Board on advice of their consulting actuary, within caps set in statute
Oklahoma PERS	Service purchases are made at actuarial cost with the exception of withdrawal repayments, which are at the rate of 10% per annum simple interest.	Statute	Yes	No	We do not pay interest on member account balances	
Oregon PERS	6-Month Waiting Time Purchase (service time prior to qualifying for PERS membership): no interest charged; actual contributions only; Forfeited Service Time Purchase: 7.5%; Full Cost Purchases (out of state education service, military service, etc.): 8% (system's assumed earnings rate)	Forfeited Service Time rate is set in statute. Full Cost Purchase interest rate is tied to the system's discount rate, which is approved by the PERS Board.	No	No	Varies by tier; those hired after 8/28/03 participate in a hybrid plan in which employers pay DB plan contributions and participants accrue returns/losses on their contributions to individual accounts.	
Pennsylvania PSRS	4.0%	Fixed by statute; same as rate paid on account balances	Yes	No	4.0%	Fixed and set by statute

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Pennsylvania SERS	Varies based on type of service, date of hire, and other factors		Yes	No	4.0%	Fixed and set by statute
South Carolina RS	4% or 6% depending on dates of service purchased.	Statute	Yes	No	4.0%	Board
South Dakota RS	7.75%	Investment return assumption, per statute	Yes	No	0% to 7.75% (assumed investment return)	based on the 91-Day T-bill rate
Tennessee CRS	7.5%	Investment return assumption, per statute	Yes	No	5%	Statute
Texas ERS	10% per year from date of withdrawal to the date of purchase. Additional Service Credit and 90-day wait is calculated using an actuarial value.	Statute and board	Yes	No	5%	Statute
Texas TRS	Interest rates vary from 5% simple to 10% compounded annually. Additionally, the cost for all service purchase types established by statute within the past 20 years is the actuarial present value of the additional service credit.	Statute. Historically, it is reasonable to assume that interest rates were established based on actuarial assumptions and investment returns at the time the different types of service purchases were established by legislative action.	Yes	No	5%	Statute
Texas MRS	5%	Statute	No	No	5%	Statute
Utah	10%	10% was the average fund return over the 30 year period when the rate was adopted. This rate was adopted by the board.	Yes	No	URS credits to members who have a balance (most are in the noncontributory system so they have no balance) the actual earnings of the investment fund up to the actuarial assumed earnings rate (currently 7.75%). The floor is 0%.	Board
Washington DRS	To repurchase previously withdrawn service credit, within certain timelines, member pays contributions plus interest - currently 8% based on the assumed rate of return. Past the	Statute allows director to determine	Yes for withdrawn time – generally 5 years, but no later than retirement. No for purchases of air time – must be paid	No	5.5%	Statute allows the system director to determine. No amount required, but if given, must be done at least

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	deadline purchases are at actuarial value of increased benefit, which is same calculation for 5 years of air time available to be purchased at retirement.		in full within 90 days of retirement.			quarterly.
Wisconsin RS	WRS does not utilize an interest rate in calculating service purchase. WRS has a number of separate categories of service, each with a different applicable formula for calculating the cost.	NA	No	No	Each year's effective interest rate, based on actual investment performance, is credited to member accounts.	