

Buyback—Is It the Best Place for Your Money?

Buying back University of California Retirement Plan (UCRP) service credit is an investment. By evaluating your cost and estimated benefit, you can decide if it's an investment you want to make. This brochure can help you make your decision.

Unlike many investments, electing UCRP buyback is an irrevocable decision. Once you make the commitment, you can't cancel it unless you leave University employment, and you cannot change the amount or duration of the monthly payments.

Most statements about UCRP retirement benefits also apply to a lump sum cashout, which is essentially a lifetime projection of retirement benefits.

Can You Afford It?

Do the payments fit your budget? Choose a payment option that you'll be able to live with even if you have unexpected expenses or an unanticipated drop in income. Remember that your buyback contract cannot be canceled.

Is It a Good Buy?

Before you make the investment, try to anticipate your returns—and to estimate how long it will take to recoup your cost, once the returns start to come in. See the example below.

Example

Say the buyback cost (investment) is \$48 per month for 5 years, or \$2,880. The buyback will increase the member's age 60 retirement benefit by an estimated \$80 per month (return).

| |
|--|
| <p>Total cost ÷ Monthly benefit Increase = Months to recoup cost \$2,880 ÷ \$80 = 36 months. It will take 36 months to recoup the buyback cost. Three years after retirement, the buyback has paid for itself.</p> |
| <p>Your Buyback:</p> <p>Total cost ÷ Monthly benefit increase = Months to recoup cost _____ ÷ _____ = _____ months If you retire at 60, it will take _____ months to recoup the cost of your buyback.</p> |

More to Consider

Benefit higher (or lower) than the estimate

The retirement benefit increase resulting from your buyback is estimated based on your current salary. It will be higher if your salary averaged over the highest 36 months (Highest Average Plan Compensation, or HAPC) is greater when you retire. If you retire before age 60, however, your benefit will be based on a lower age factor.

Cost-of-Living Adjustments (COLAs)

All UCRP monthly benefits are eligible for COLA increases each year, based on a percentage of the benefit. If you increase a benefit through buyback, you also increase any COLA payable.

Survivor benefits

If your death occurs after you retire (or while you are eligible to retire), buyback may increase benefits payable to your surviving spouse and/or any other person you name as your contingent annuitant.

More to Consider, *continued*

Disability income

If you become eligible for UCRP disability income before you retire, your buyback could increase your disability benefit, depending on your years of service credit. Buyback for previous UCRP membership will help you meet the minimum service credit requirement, but buyback for a leave will not. Payment to eliminate the noncontributory offset has no effect on disability income.

Medical and dental benefits

UCRP buyback may help you qualify to continue UC-sponsored medical and dental benefits after you retire,

or may increase the UC contribution toward the monthly premiums. For more information, see the *UC Group Insurance Eligibility Factsheet*, available in your department or Benefits Office or on our website (see page 4).

No guarantees

UCRP buyback increases future retirement benefits unless you reach the maximum allowable benefit. If you leave University employment or die before becoming eligible to retire, you/your survivors may not benefit from buyback.

Could You Get a Better Return Elsewhere?

Rather than investing in UCRP buyback, you could invest the same money elsewhere. For example, you could deposit the amount of the monthly buyback payment in a savings account at your bank. Or you could have contributions taken from your paycheck and placed in one of the UC savings plans. For comparison purposes, the Tax-Deferred 403(b) Plan is most similar to buyback in that your deductions are taken on a pretax basis. How would the returns compare to the UCRP buyback benefit?

Example:

A member finds that her buyback payments would be \$100 per month for 4 years (total payments \$4800) and would increase her age 60 retirement benefit by an estimated \$50 per month. She is now 31 years old (age 35 when payments are completed—or 25 years from age 60).

Bank savings account

For a regular savings account, the member's bank is currently paying 2% interest. At this rate, her \$100 per month for four years would total \$4,991 at age 35. If she left her money on deposit earning 2% annually, at age 60 the balance would be \$8,188. Each year, taxes would be due on interest earned that year.

Tax-Deferred 403(b) Plan

For simplicity, say the member's earnings averaged 6% annually. At this rate, her \$100 per month would be worth \$5,392 at age 35—and \$23,142 at age 60. Taxes are deferred until she receives the returns.

Converting savings to lifetime income

To complete the comparison, we will assume that at age 60, the member will withdraw her savings and purchase an annuity. She selects monthly income to be paid over her lifetime.

From her bank savings of \$8,188, her annuity would be about \$61 per month for her lifetime.

An annuity from her 403(b) savings would be about \$170 per month for her lifetime.

Comparison of monthly benefits at age 60:

| Vehicle | Investment | Estimated Returns (Monthly Benefit)* |
|--------------------------|------------|---|
| UCRP buyback | \$4,800 | \$50.00 per month plus COLAs and additional benefits—see "More to Consider" above |
| Bank savings account | \$4,800 | \$61.00 (no COLAs; no additional benefits) |
| 403(b) Plan Savings Fund | \$4,800 | \$170.00 (no COLAs; no additional benefits) |

Please note: Contributions to the 403(b) Plan are subject to an annual limit. Earnings rates are subject to change. Past earnings do not guarantee future earnings.
*See "Tax implications" on page 4.

Your Investment—Comparison Worksheet

UCRP buyback is not comparable to any other investment vehicle. Only UCRP provides additional benefits (see “More to Consider” on pages 1–2). And only UCRP buyback requires an irrevocable commitment from you, the investor—whereas deposits to a savings account or contributions to the 403(b) Plan require no such commitment.

However, in spite of these differences, a comparison can be worthwhile as part of your evaluation.

Use this worksheet to compare the anticipated investment returns from UCRP buyback to another investment vehicle of your choice.

UCRP buyback

Enter the figures for your proposed buyback. Items A, B, and C are on your *Buyback Calculation*.

A. Enter your monthly buyback payment. A. \$ _____

B. Enter your buyback payment period. B. _____ years

C. Enter the estimated increase in your age 60 UCRP retirement benefit. C. \$ _____

D. Add your current age and the buyback payment period on line B.

_____ + _____ = D. _____ years
 age line B

E. Subtract line D from 60 to determine the number of years from completion of payment to age 60.

60 - _____ = E. _____ years
 line D

Alternate investment vehicle

1. Select an interest rate. (See below.) 1. _____ %

2. From Table I, find the factor for the interest rate on line 1 and payment period from line B. 2. _____

3. Multiply the factor on line 2 by the monthly payment on line A.

_____ x _____ = 3. \$ _____
 line 2 line A

This result is the estimated savings balance at the end of the payment period.

Choosing an interest rate: The rate represents the average you assume your savings will earn over time. You may want to make several estimates based on various interest rates. For each estimate, use the same interest rate throughout (steps 2 and 4).

Projecting your savings balance to age 60

4. From Table II, find the factor for the interest rate on line 1 and years to age 60 from line E.

4. _____

5. Multiply line 3 by line 4.

_____ x _____
line 3 line 4

= 5. \$ _____

This is your projected balance at age 60.

Converting savings to lifetime income

6. Multiply line 5 by .995 (California premium tax is 1/2% or .005).

_____ x .995
line 5

= 6. \$ _____

This is the estimated amount upon which your monthly income will be based.

7. Divide line 6 by 133.8 (estimated annuity factor for age 60).*

_____ ÷ 133.8
line 6

= 7. \$ _____

This is the estimated monthly income you could receive based on your savings.

Comparing investment returns

8. Compare the investment returns from your alternate investment vehicle to your UCRP buyback (line C on page 3):

_____ vs. _____ plus COLA and additional benefits
line 7 line C

* Annuity factor for age 60 is estimated at 133.8. Annuity factors are based on life expectancy tables as well as market conditions, and therefore fluctuate frequently.

Tax implications are mentioned only briefly in this brochure—although their impact can be significant. Generally, UCRP buyback payments and 403(b) contributions both reduce your current taxable income. Taxes are not payable until you retire and begin receiving your returns.

Deposits to your savings account, on the other hand, do not reduce your current taxable income. In addition, taxes on any interest earned are due each year.

Making Your Decision

Only you can decide if buyback is an investment you want to make. This brochure has posed some important questions—but you may have additional concerns.

UCbencom can help: <http://www.ucop.edu/bencom>

UCbencom, UC Benefits' website, offers two interactive modeling programs that may help you with your buyback decision.

- **Fortune Forecaster** shows how the value of your 403(b) Plan account can grow over time.
- **UC Retirement Plan Benefit Estimator**, developed by Lawrence Livermore National Laboratory, allows you to estimate UCRP retirement income based on information you provide.

We recommend that you discuss your investment options and tax situation with a qualified investment advisor.

Table I—Simple Interest Table

| Years | 2% | 4% | 6% | 8% | 10% |
|-------|-------|-------|-------|-------|-------|
| 1 | 12.11 | 12.22 | 12.33 | 12.43 | 12.54 |
| 2 | 24.46 | 24.93 | 25.39 | 25.86 | 26.34 |
| 3 | 37.06 | 38.14 | 39.24 | 40.37 | 41.51 |
| 4 | 49.91 | 51.89 | 53.92 | 56.03 | 58.20 |
| 5 | 63.02 | 66.18 | 69.49 | 72.94 | 76.56 |

Table II—Compound Interest Table

| Years | 2% | 4% | 6% | 8% | 10% |
|-------|--------|--------|--------|---------|---------|
| 1 | 1.0200 | 1.0400 | 1.0600 | 1.0800 | 1.1000 |
| 2 | 1.0404 | 1.0816 | 1.1236 | 1.1664 | 1.2100 |
| 3 | 1.0612 | 1.1249 | 1.1910 | 1.2597 | 1.3310 |
| 4 | 1.0824 | 1.1699 | 1.2625 | 1.3605 | 1.4641 |
| 5 | 1.1041 | 1.2167 | 1.3382 | 1.4693 | 1.6105 |
| 6 | 1.1262 | 1.2653 | 1.4185 | 1.5869 | 1.7716 |
| 7 | 1.1487 | 1.3159 | 1.5036 | 1.7138 | 1.9487 |
| 8 | 1.1717 | 1.3686 | 1.5938 | 1.8509 | 2.1436 |
| 9 | 1.1951 | 1.4233 | 1.6895 | 1.9990 | 2.3579 |
| 10 | 1.2190 | 1.4802 | 1.7908 | 2.1589 | 2.5937 |
| 11 | 1.2434 | 1.5395 | 1.8983 | 2.3316 | 2.8531 |
| 12 | 1.2682 | 1.6010 | 2.0122 | 2.5182 | 3.1384 |
| 13 | 1.2936 | 1.6651 | 2.1329 | 2.7196 | 3.4523 |
| 14 | 1.3195 | 1.7317 | 2.2609 | 2.9372 | 3.7975 |
| 15 | 1.3459 | 1.8009 | 2.3966 | 3.1722 | 4.1772 |
| 16 | 1.3728 | 1.8730 | 2.5404 | 3.4259 | 4.5950 |
| 17 | 1.4002 | 1.9479 | 2.6928 | 3.7000 | 5.0545 |
| 18 | 1.4282 | 2.0258 | 2.8543 | 3.9960 | 5.5599 |
| 19 | 1.4568 | 2.1068 | 3.0256 | 4.3157 | 6.1159 |
| 20 | 1.4859 | 2.1911 | 3.2071 | 4.6610 | 6.7275 |
| 21 | 1.5157 | 2.2788 | 3.3996 | 5.0338 | 7.4002 |
| 22 | 1.5460 | 2.3699 | 3.6035 | 5.4365 | 8.1403 |
| 23 | 1.5769 | 2.4647 | 3.8197 | 5.8715 | 8.9543 |
| 24 | 1.6084 | 2.5633 | 4.0489 | 6.3412 | 9.8497 |
| 25 | 1.6406 | 2.6658 | 4.2919 | 6.8485 | 10.8347 |
| 26 | 1.6734 | 2.7725 | 4.5494 | 7.3964 | 11.9182 |
| 27 | 1.7069 | 2.8834 | 4.8223 | 7.9881 | 13.1100 |
| 28 | 1.7410 | 2.9987 | 5.1117 | 8.6271 | 14.4210 |
| 29 | 1.7758 | 3.1187 | 5.4184 | 9.3173 | 15.8631 |
| 30 | 1.8114 | 3.2434 | 5.7435 | 10.0627 | 17.4494 |

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