

Actuarial Equivalent Reduction (AER) Guidelines

A supplement to Service Credit Purchase Election Packets

What is an AER?

An Actuarial Equivalent Reduction (AER) is an alternative payment method for paying your service credit purchase balance at retirement, or when electing to convert your second tier service to the first tier (Tier Conversion). AER reduces your retirement benefit every month by an actuarially equivalent amount of the remaining balance owed. An AER enables you to continue to receive an increase in your monthly retirement benefit.

Service Credit Purchase at Retirement

The payment options that will be available to you at retirement are dependent upon the date that CalPERS receives your completed Election to Purchase Service Credit. The payment options available at retirement are as follows:

Service Credit Purchases Elected on or after January 1, 2020:

- You must pay any remaining balance in full at retirement.
- In lieu of paying the balance in full, AER is available as a payment method for all service credit types at retirement.
- Any balance remaining unpaid at the time of retirement will convert to an AER.

Service Credit Purchases Elected before January 1, 2020- Retirement date after January 1, 2020:

- You can pay the remaining balance through a lump sum, or installment payments from your retirement benefit.
- In lieu of a lump sum payment or installment payments, AER is available as a payment method at retirement.
- Any balance remaining unpaid at the time of retirement will be set up as installment payments from your retirement benefit.

AER:

- An AER enables you to receive an increase to your monthly retirement benefit, while also satisfying the remaining balance owed.
- AER is calculated using several factors, including your life expectancy, age, and your balance remaining at retirement.
- Interest will continue to accrue on the service credit purchase balance until retirement. The actual AER amount will be calculated when you retire.
- You may be able to make partial payments or pay the balance in full prior to retirement.
- Once the AER is applied to your retirement benefit, the election is irrevocable, and you may not choose another payment method.
- The lifetime AER continues while there is a monthly retirement benefit payable to you or your beneficiary.