

## OCERS Administrative Procedure (OAP) Years of Service Credit Calculation

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### I. Purpose

The purpose of this procedure is to delineate the method OCERS uses for determining Years of Service Credit in the process of calculating a member's retirement allowance.

### II. Authority

This OAP is established pursuant the Chief Executive Officer (CEO) Charter, section 8.f., which directs the CEO to develop staff policies and procedures to ensure effective and efficient administration of member benefits. The OAP is in conformance with Board Policy, the County Employees Retirement Law (California Government Code section 31450, et seq.) (CERL), and the Public Employees' Pension Reform Act (Government Code, sections 7522 - 7522.74) (PEPRA).

### III. Definition

Years of Service Credit is one of the four factors used to calculate a member's monthly retirement allowance, along with the plan's formula factor, age at retirement, and final average salary.<sup>1</sup>

"Years of Service Credit" (or "Service Credit") refers to the credit an OCERS' member earns from the period of time that deductions are taken from their compensation while in "service" (i.e., employed).<sup>2</sup> Generally, it is only a member's uninterrupted employment that provides Service Credit. However, some interruptions in employment do not break the necessary continuity of

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<sup>1</sup> Final average salary is a measure of your earnings based on your average salary for a specified period. It includes your base salary and may also include, for example, other pensionable pay items such as uniform allowance, shift differentials, and bilingual pay. For Legacy Members, the eligible compensation is termed "compensation earnable" and is defined at Gov. Code, §§ 31461 - 31461.6. Under PEPRA, the term "pensionable compensation" is used, and is defined at Gov. Code, § 7522.34.

<sup>2</sup> Service is defined at Gov. Code, § 31641.

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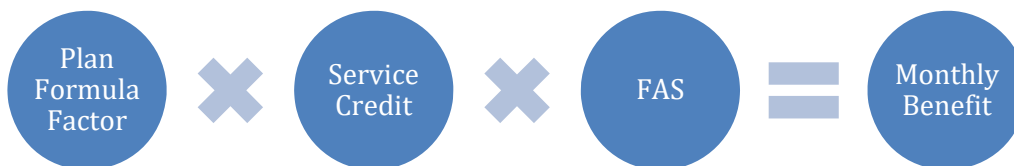
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service.<sup>3</sup> One example is when a member goes on a leave of absence and is then reinstated or re-employed within one year from the end of the leave.

To measure Service Credit, OCERS converts the hours worked and those paid via paid time-off (with associated contributions) into years. For example, one year of Service Credit is earned for each 2,080 hours paid in a year, i.e., 40 hours per week x 52 weeks in a year. Working on a part-time basis results in a proportionate amount of Service Credit. Thus, a member working 20 hours per week for a year would receive one half year of Service Credit. The amount of Service Credit cannot exceed one year in a 12-month period.

## IV. Application

The retirement formula to determine the amount of a monthly benefit is based on a calculation of the percentage tied to the member's age at retirement known as the plan formula factor (e.g., 3% at age 50 or 2.7% at age 55), multiplied by Service Credit years, multiplied by the final average salary per pay period (FAS).



OCERS computes the number of Service Credit years using the total of the eligible hours worked (and those paid via paid time-off) for all pay periods whose last day ends in the same calendar year. However, most of the time, pay periods do not align with the calendar, so a pay period may straddle the end of December and the beginning of January. For example, if a two-week pay period runs from December 20, 2019, through January 2, 2020, that pay period is deemed to occur in 2020, even though most of the days worked fell in 2019.

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<sup>3</sup> See Gov. Code § 31642. "Continuity of service; designation of matters not breaking continuity"

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The majority of OCERS employers utilize a bi-weekly payroll system, usually with 26 pay periods of 80 hours each, adding up to 2,080 hours in a year. One full pay period then is  $1/26^{\text{th}}$  of a year or .03846 years. In that case, a member who works 26 consecutive pay periods is deemed to have earned one year of Service Credit ( $26 \times .03846=1$ ) (rounded to four decimals).

Occasionally, a calendar year will be made up of 27 pay periods instead of 26. That is because there are 365 days in a calendar year (or 366 during a leap year), and 26 fourteen-day pay periods add up to only 364 days. 27 pay periods of 80 hours each equals 2,160 hours, rather than the 2,080 hours in 26.

To adjust for a year with 27 pay periods, OCERS applies the fraction of  $1/27^{\text{th}}$  of a year or .03704 (rounded to four decimals) years for each of those periods rather than the  $1/26^{\text{th}}$  or .03846 years for those with 26 pay periods. Thus, a member will receive credit for either  $1/26^{\text{th}}$  or  $1/27^{\text{th}}$  of a year per pay period, depending on the year, with either resulting in no more than one year of Service Credit.<sup>4</sup>

The importance of the different fractions used in the calculation comes into play when a member's employment includes less than one full calendar year. For partial years, each pay period is multiplied by the appropriate fraction, .03846 or .03704 ( $1/26^{\text{th}}$  or  $1/27^{\text{th}}$ ) and converted to a 5-decimal value on a per pay period basis (the annual and cumulative total are then rounded to 4 decimals). A hypothetical example of the process is as follows:

Member X retires at age 55 with 25 full calendar years of service. In addition, Member X worked for two partial years. The member started on July 1st of the initial year when they were hired and retired on January 31st of their last year. The initial year had 26 pay periods and the last year had 27 pay periods.

Member X's retirement formula is 2.7% at age 55, and their final average monthly salary was \$6,000.00.

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<sup>4</sup> Special calculations are made for pay periods in which the member did not receive compensation for the full period. Also, note that the calculation for Years of Service Credit does not change for leap years.

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- For the initial year with 26 pay periods, the member will be credited for 13 pay periods:  $13 \text{ pay periods} \times .03846 \text{ years (1/26}^{\text{th}}) = .5000 \text{ years of Service}$ . For the last year with 27 pay periods, the member will be credited for 2 pay periods:  $2 \text{ pay periods} \times .03704 \text{ years (1/27}^{\text{th}}) = .0741 \text{ years of Service}$ .
- Member X's total years of Service Credit will thus be  $25 \text{ years} + .5000 \text{ years} + .0741 \text{ years} = 25.5741 \text{ years}$ .

Now we can perform the calculation: plan formula factor x Service Credit x FAS = retirement allowance.

- $.027 \text{ (2.7\% Formula)} \times 25.5741 \text{ years of Service Credit} = .6905 \text{ (69.05\%)} \times \$6,000 \text{ (FAS)} = \$4,143.00 \text{ (Member X's monthly retirement allowance)}$ .