

Disclaimer

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Members' retirement-related information may be subject to disclosure under Pennsylvania's Right-to-Know Law.

What is purchase of service?

The Retirement Code allows for the purchase of several types of State and nonstate service by active, contributing members of SERS and Multiple Service members of the Public School Employees' Retirement System (PSERS).

How does a purchase of service affect my pension benefit?

Credited service is used to determine your eligibility for and the amount of your annuity. Purchasing service credit will cause you to become "vested" in the retirement plan sooner. As a vested member, you will be eligible for a retirement annuity at termination, rather than just a refund of your accumulated deductions. Purchasing service also can increase the amount of your retirement annuity.

State service

Creditable State service includes certain service rendered as an employee of the Commonwealth of Pennsylvania for an agency under the Governor's

jurisdiction or for an independent agency. It also includes certain service rendered as a member of the Unified Judicial System, as a member of the General Assembly, as an employee or officer of the State System of Higher Education (SSHE) and its member universities, certain community colleges and The Pennsylvania State University.

Purchasable previous State service; contributions withdrawn

If you received State service credit in the past but withdrew your member contributions when you terminated your employment, you may purchase that service credit if you return to active State service. The cost of purchasing previous State service **for which you have withdrawn the contributions you made to SERS** is the sum of your contributions withdrawn plus 4 percent interest compounded annually from the date of your return to active, contributing membership to the date you request to purchase the service.

Purchasable previous State service; no contributions made

If you rendered State service in the past but did not make contributions to SERS, you may purchase that service credit if you return to active State service and become a member of SERS. The cost of purchasing previous State service **for which no contributions were made to SERS** is determined by multiplying the earnings you received previously by your contribution rate at the time of service and adding 4 percent interest compounded annually from the date you became an active, contributing member to the date you request to purchase the service.

Nonstate service you may purchase

There are several categories of nonstate service for which you may purchase credit. These categories include intervening and nonintervening military service (including ocean-going Merchant Marine Service between December 7, 1941 and August 15, 1945); out-of-state and federal service in public school education; certain types of other governmental service;

Cadet Nurse Corps service; Community College service prior to July 1, 1971; and service as a Justice of the Peace prior to January 1, 1970.

Some restrictions apply to the purchase of nonstate service:

- You must purchase all previous State service before you may purchase any nonstate service.
- You may not purchase more nonstate service than you have credited State service.
- You must not be eligible to receive a benefit now or in the future from another retirement system based on the nonstate service you wish to purchase, unless it is National Guard or Reserve service covered under Title 10, Chapter 1223, Sections 12731-12738 of the United States Code, (Retired Pay for Non-regular Service).

Purchase costs

You will be required to pay both the member and the employer share in order to purchase most types of nonstate service. The only exception applies to the purchase of intervening military service in which case your employing agency will pay the employer share of the purchase cost.

Intervening military service

Intervening military service is active duty with the United States armed forces between periods of State service. To be eligible to purchase credit for your intervening military service, you must have been a State employee immediately preceding your military service and you must have applied to return to State service within 90 days of your release from active duty. A voluntary extension of intervening military service causes the voluntary extension portion to be treated as nonintervening military service.

The member share for purchasing intervening military service is the amount of contributions you would have made if you had continued your State employment, plus the interest that would have been credited to your account on those contributions. You also pay interest at the rate of 4 percent compounded annually from the date of your return to active, contributing membership

to the date you request to purchase the service. Your employing agency will pay the employer share of the purchase cost.

Nonintervening military service

Nonintervening military service is active duty with the United States armed forces that does not meet the criteria for intervening military service described above. You must have at least three years of credited State service following your military service before you may purchase nonintervening military service credit. Purchases must be in portions of not less than one year, unless you have less than one year of purchasable service. Only one purchase is allowed in any 12-month period, and the total purchase cannot exceed five years.

The member share for purchasing nonintervening military service is the average of your first three years of State earnings following military service times the member contribution rate times the years of military service plus 4 percent interest compounded annually from the date you became an active, contributing SERS member following your military duty until the date you request to purchase the service. You will also be required to pay the employer share, which is calculated as follows: the average of your first three years of State earnings following military service times the employer's Normal Contribution Rate times years of military service plus 4 percent interest compounded annually from the date you became an active, contributing SERS member following your military duty until the date you request to purchase the service.

Out-of-state educational service

If you have credited service as an academic administrator, teacher or instructor in the Pennsylvania Department of Education, the State System of Higher Education, any Pennsylvania State-owned educational institution or The Pennsylvania State University, you are eligible to purchase credit for nonstudent service as an academic administrator, teacher or instructor in any public school or public educational institution in another state and as an employee in the field of education for any agency or department of the United

States government. Your purchase of service is limited to a maximum of 10 years, and you may not purchase more out-of-state educational service than you have credited State service. If you have been a continuous member of SERS since prior to August 5, 1991, some of the limitations on purchasable out-of-state educational service may not apply to you.

The member share for purchasing out-of-state educational service is your starting salary as a SERS member following your out-of-state service times your member contribution rate times your years of out-of-state service plus 4 percent interest compounded annually from the date you became an active, contributing SERS member to the date you request to purchase the service. You also pay the employer share, which is calculated as follows: your starting salary as a SERS member following your out-of-state service times the employer's Normal Contribution Rate times years of out-of-state service plus 4 percent interest compounded annually from the date you became an active, contributing SERS member following your out-of-state service until the date you request to purchase the service.

Community college service

You may purchase credit for service rendered prior to July 1, 1971 in an institution established under the Community College Act of 1963. You may not purchase more nonstate service than you have credited State service. The cost of this purchase is based on a calculation similar to that for out-of-state educational service described above.

Cadet Nurse Corps service

Cadet Nurse Corps service is purchasable if it was for training as a student or graduate nurse under a plan approved under Section 2 of the Act of June 15, 1943 (Public Law 78-73, 57 Stat. 153). The total period of training must have been at least two years. No more than three years of Cadet Nurse Corps service may be purchased. The cost of this purchase is based on a calculation similar to that for nonintervening military service described above.

Justice of the Peace service

Pennsylvania Justice of the Peace service credit rendered prior to 1970 may be purchased if you were elected or appointed as a District Justice or Magisterial District Judge any time during or after 1970. You may not purchase more nonstate service than you have credited State service. The cost of this purchase is based on a calculation similar to that for out-of-state educational service described above.

Multiple service

Multiple Service is the combining of credited SERS service and PSERS service for receipt of a combined retirement benefit. New employees may elect Multiple Service within 365 days of joining SERS. A Multiple Service election is voluntary.

PSERS employees may elect to purchase prior State service to become Multiple Service members. Payment can be made by lump sum or by an actuarial debt. If an actuarial debt is chosen, the debt will continue to accrue interest at the rate of 4 percent compounded annually until retirement.

If you are a Multiple Service member, you may elect to purchase any nonintervening military service or out-of-state educational service for which you are eligible through either SERS or PSERS, provided you meet the requirements for such purchases. In no case are you permitted to purchase the same years of service in both systems, and the total amount of nonintervening military service purchased cannot exceed five years.

How do I apply for the purchase of service?

Only active, contributing members of SERS or active, contributing Multiple Service members of PSERS may make service purchases. You may obtain a *Request for Cost Statement (SERS-131)* from the SERS web site or from your Retirement Counselor. In completing and submitting the form, provide as much information as possible, along with any additional forms required. Proof of a military discharge, such as a Form DD-214, is required from the military for the purchase of military service. To be purchasable, the type of

discharge reported on the discharge certificate must be **other** than an undesirable, bad conduct or dishonorable discharge.

A completed *Request for Out-of-State Service Credit (SERS-104)* is required for an out-of-state educational service purchase.

A completed Form 300-A is required from the military for the purchase of Cadet Nurse Corps service.

If you plan to retire in the near future, your date of retirement should be noted on the *Request for Cost Statement (SERS-131)*. SERS will take reasonable steps to expedite your request; however, you must be an active member in order to complete the service credit purchase. When all the required information is received, the SERS Membership Services Division will compute the amount owed and notify you of your payment alternatives.

How do I pay for the purchase of service?

The Retirement Code allows you to elect a payment option. You may choose an actuarial debt, which will continue to accrue interest at 4 percent, compounded annually until retirement. Alternatively, you may also choose to make a lump sum payment for the total amount, make a minimum payment of one-third of the total amount in a lump sum (with the remaining balance paid over a maximum of six years), or pay the total amount through payroll deductions over a maximum of six years. If you pay by payroll deduction, you will be charged interest at a rate of 4 percent annually.

NOTE: PSERS members electing to purchase prior State service to become Multiple Service members and SERS members electing to purchase prior PSERS service to become Multiple Service members may only pay for the purchase of service by lump sum or by an actuarial debt.

Election to purchase is final and binding

- You do not need to respond to your billing statement if you choose to purchase the creditable service by

actuarial debt. If you do not respond to SERS (or to PSERS if you are a SERS member electing Multiple Service for your school service) within 30 days from the date of the invoice, the debt and the associated creditable service will automatically be established on your retirement account and your payment election is **Final and Binding**.

- **You must notify SERS within 30 days from the date of the invoice if you choose not to complete the purchase or choose to make the purchase with a lump sum or payroll deductions.**

- ❖ If you notify SERS within 30 days of the billing statement date that you have decided not to complete your service purchase, you may purchase the service at a later date, provided you are otherwise eligible to do so.

- ❖ Employees may only elect Multiple Service within 365 days of joining SERS. For purchases other than Multiple Service Credit, if you notify SERS within 30 days of the billing statement date that you have decided not to complete your service purchase, you may purchase the service at a later date, provided you are otherwise eligible to do so.

- ❖ If you would like to pay by a lump sum or by payroll deductions, you must complete page 3 of the service purchase billing statement and return it to SERS.

- ❖ If you would like to make a partial lump sum payment, you must send a letter explaining how much you would like to pay and how you would like to pay the balance. Payroll deductions will be approved in increments of full year periods for a maximum of six years.

- ❖ If you select a lump sum payment or payroll deduction purchase option, the purchased service is credited to your retirement account upon receipt of a lump sum payment or the first payroll deduction.

- ❖ If you elect to purchase service by payroll deduction, at least one deduction must be taken from your paycheck before you terminate service for the service to be credited. After the initial

payroll deduction, you may pay the balance by a lump sum or by an actuarial debt to your account.

- ❖ If you are paying by payroll deduction and you want to pay the remaining balance in a lump sum, you should contact your payroll office to determine the balance owed.

Federal tax impact

The monies you pay for the purchase of service may not be deducted from your annual earnings as tax-deferred contributions for federal tax purposes. Also, the interest calculated in the cost of purchasing service may not be deducted for tax purposes.

All payments for the purchase of service are made on an after-tax basis. Federal tax law requires that all after-tax dollars received by a qualified retirement plan after December 31, 1986 may only be recovered by the member over his or her lifetime. The Internal Revenue Service calls this the "General Rule." This will have an impact on the taxability of service purchase payments refunded under withdrawal Option 4 at the time of your retirement. Please refer to the detailed requirements of the General Rule, which may be found in IRS Publication 575, "Pension and Annuity Income," or contact a qualified tax consultant for more information on this topic.

More information

For more information visit the SERS web site at www.sers.state.pa.us or contact your SERS Regional Retirement Counseling Center toll-free at 1-800-633-5461.

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Provisions for the PURCHASE OF SERVICE (SERS-155)

