

# AGREEMENT FOR SALARY REDUCTION TO PURCHASE SERVICE CREDIT

**VIRGINIA RETIREMENT SYSTEM**  
**P.O. Box 2500**  
**Richmond, Virginia 23218-2500**  
**Toll Free 1-888-VARETIR (827-3847)**  
**www.varetire.org**

1. Employer Code
2. Employer Name
3. Social Security Number

**PART A. MEMBER INFORMATION** (Please print)

<b>4. Name</b>	(First)	(MI)	(Last)	(Jr./Sr.)
<b>5. Address</b>	(Street)	(City)	(State)	(Zip+4)
<b>6. Salary Reduction Election</b>				
I have reviewed my VRS cost letter for the purchase of service credit. Under VRS policies and procedures, this service may be purchased through tax-deferred salary reduction at 5 percent of my creditable compensation (which may fluctuate during the contract period). I authorize my employer to reduce my future salary according to the following terms:				
A) Total Number of Months Eligible for Purchase: _____				
B) Number of Months to Purchase under this Agreement: _____				
C) Date to Begin Salary Reduction: _____/01/_____      D) Anticipated End Date: _____				
(mm)		(yyyy)		(mm/yyyy)
<b>7. Member Authorization</b>				
I understand and agree to the following terms:				
1) I am purchasing at least 12 months of service credit under this agreement, or I am purchasing all months available if the total number of months eligible for purchase in item 6A above is less than 12 months.				
2) This agreement is binding and <i>irrevocable</i> , except in the event of an unforeseeable emergency as outlined on the back of this form. If such an emergency revocation is permitted, I may not enter into a new agreement for salary reduction during my employment; nor may I receive the amounts contributed. The amounts will be contributed directly by my employer to VRS for credit to my membership account.				
3) I cannot purchase the service credit described in box 6 through lump-sum payment during the term of the tax-deferred agreement for salary reduction.				
4) If I terminate employment or retire prior to completing the terms of this agreement, I cannot purchase the remaining months of service in a lump-sum payment.				
5) This contract ends upon completion of the purchase of the number of months of service credit elected in 6B.				
6) I have read and understand the information <i>on the back of this form</i> and have been provided information needed to make this decision.				
_____		_____		_____
Member Signature		Daytime Phone Number		Date

**PART B. EMPLOYER ACCEPTANCE**

My signature provides acceptance of this agreement and that salary reductions will be processed based on the Salary Reduction Election as provided in Box 6.			
_____			_____
Authorized Signer (Please print)			Title
_____		_____	
Authorized Signature		Phone Number	
_____		_____	
		Date	



# Important Information About Tax-Deferred Salary Reduction to Purchase Service Credit

A private letter ruling from the Internal Revenue Service (IRS) provides for VRS members to purchase prior service credit on a tax-deferred basis through salary reduction provided the employer has adopted the required resolution. Only prior service that can be purchased at a cost of 5 percent of current creditable salary is eligible for purchase on a tax-deferred basis. You must purchase the service through salary reduction and sign an *irrevocable* Agreement for Salary Reduction to Purchase Service Credit (VRS-26E) providing the terms of the purchase before reductions begin. Based on the IRS ruling, the agreement is a binding contract and can only be broken due to an unforeseeable emergency, which is defined in Internal Revenue Code Section 457 and Treasury Regulation 1.457-6(c)(2)(i) as a severe financial hardship of the participant or beneficiary resulting from an illness or accident of the participant or beneficiary, the participant's or beneficiary's spouse, or the participant's or beneficiary's dependent (as defined in section 152(a)); loss of the participant's or beneficiary's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by homeowner's insurance, e.g., as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant or the beneficiary. **If you elect this method for the purchase of prior service credit and later terminate employment or retire before completing the agreement, you *cannot* purchase the remaining months of prior service credit through a lump sum payment.**

## What is the advantage to purchasing prior service credit on a tax-deferred basis?

Purchasing prior service credit on a tax-deferred basis reduces the amount of your taxable income that is subject to income taxes. Because the amount of your salary reduction to purchase prior service credit is treated as an employer contribution for purposes of determining federal and state income tax withholding, it is subtracted from your taxable income before federal and state income taxes are applied. This allows you to achieve current-year tax savings while accumulating service credit towards retirement.

## How do I purchase service on a tax-deferred basis?

If your employer has authorized your eligibility to purchase service and provides the tax-deferred option to purchase service, you must read and sign this binding, *irrevocable* Agreement for Salary Reduction (VRS-26E). This document serves as a contract between you and VRS. You provide the number of months you wish to purchase on a tax-deferred basis through salary reduction on the agreement. If for any reason, you cannot fulfill the terms of this contract between you and VRS, you will *not* be able to purchase the remaining months in a lump-sum payment.

## Am I required to purchase all eligible service?

You may contract for less than the full amount of the eligible service credit. After completing that contract, you can execute a new contract for an additional portion of service credit. VRS requires a minimum contract length of 12 months unless you have less than 12 months to purchase. VRS strongly suggests you take into consideration the possibilities of an early retirement or changes in employment status before providing the number of months to be purchased on a tax-deferred basis. For example, you may be eligible to purchase 36 months of service but want to retire a year from now. In this case, you could purchase 12 months on a tax-deferred basis and pay for the remaining months by lump-sum purchase.

## Are there other potential tax implications to a tax-deferred purchase?

Various sections of the Internal Revenue Code place limits on the amount of contributions an employee may make to a deferred compensation plan under IRC Section 457, a tax-sheltered or tax-deferred annuity plan under IRC Section 403(b), or other tax-sheltered plans. Although, the contribution used to purchase service on a tax-deferred basis is not counted as this type of contribution, limitations for these plans are also based on your taxable income. Purchasing prior service credit on a tax-deferred basis reduces your taxable income, so the maximum amount you could contribute to other tax-sheltered plans could be reduced. VRS recommends you check with your financial advisor before initiating a tax-deferred purchase of prior service credit.