

# Chapter 4. Service Credit

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## Service Credit

**T**he total *service credit* in a member's contribution account is one of the factors in the formula used to determine the amount of the retirement benefit. Service credit also determines eligibility and amount of the *health insurance credit*, if applicable, and eligibility for life insurance in retirement.

A *member* earns service for each month reported on the employer's monthly reports. A member may increase service credit by purchasing certain types of eligible service or by applying for service at no cost in certain circumstances. A member previously employed by certain *political subdivisions* of Virginia not participating in VRS may purchase service through a transfer of assets if the political subdivision has a *portability agreement* with the Virginia Retirement System (VRS).

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### EARNED SERVICE

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Members are credited with one month of service for each month a contribution is made to VRS. Most employers pay the 5 percent member contribution through an irrevocable election. If the employer does not pay the contribution, it is deducted from the member's monthly creditable compensation on either a before-tax or after-tax basis, based on the employer's election.

For VRS members who are employed on a contract basis, VRS uses the length of the contract to determine how much service is credited to the member's record on a monthly basis. A member who is employed in a VRS-

*covered position* under a 12-month contract earns one month of service for each month a contribution is made to VRS. No more than one year of service credit can be earned in any period of 12 consecutive months.

### Crediting Service to the Member's Account

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Service credit is credited based on contract length:

Length of Contract	How Service is Credited
12-Month	Members receive one month of service credit for each month worked.
11-Month	Members beginning an 11-month contract in August receive one month of service credit for each month from August through June, except for January. During January, the member receives two months service credit.
10-Month	Members beginning a 10-month contract in September receive one month of service credit for each month from September through June, except for November and April. During November and April, the member receives two months service credit.
9-Month	Members beginning a 9-month contract in September receive one month of service credit for each month from September through May, except for October, January, and April. During October, January, and April, the member receives two months of service credit.

### Vesting Requirement

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A member who accumulates five years of credited service becomes vested. A member who terminates employment after vesting and does not take a *refund* retains the right to a future benefit upon reaching retirement age.

### TRANSFERRED SERVICE CREDIT

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#### Portability Transactions

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The Code of Virginia permits VRS to enter into reciprocal agreements with other public sector defined benefit plans in Virginia to provide for portability of benefits between the plans.<sup>1</sup> A portability agreement allows an active VRS member to transfer the present value of benefits from a non-VRS

*Advise employees if you have a portability agreement.*

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<sup>1</sup> See Code of Virginia §§ 51.1-143.1 and 51.1-801.1.

defined benefit public retirement system in Virginia to the VRS defined benefit plan during a **one-time** eligibility period to purchase service credit. Employers entering into a portability agreement notify their employees of the eligibility period dates.

To be eligible for portability of benefits, the member must meet the following conditions:

- A portability agreement must exist between VRS and the former employer,
- The member must be actively employed in a full-time VRS-covered position,
- The member must have been vested in a retirement plan offered by his or her former employer at the time of termination, and
- Existing members of political subdivisions with new portability agreements have eighteen (18) months from the date of the notification letter being sent to make an election to transfer assets from the prior plan to VRS to purchase service credit. Members of political subdivisions that have old portability agreements have 18 months from their VRS join date to transfer assets.

The actual amount of service credit a member receives may or may not equal the actual service accumulated under the former employer's plan. Only the present value of the benefit in the former plan is transferred to VRS. The actual amount of service is determined by actuarial formulas that take into consideration many factors including the member's age, life expectancy, salary at the time of purchase, the effect of interest rates, and cost-of-living adjustments. The amount of service credited through portability could be equal or less than the actual amount of service with the former plan. The member is advised of the actual amount of service that can be credited prior to porting any assets.

*VRS does not guarantee a one-for-one transfer of service under portability.*

**Note:** If the amount of service credit is less than the actual amount of service accumulated under the former employer's plan, the member may purchase the additional service credit. See the Non-Ported service provisions under the "Purchased Service Credit" section of this chapter for more information.

Service credit added to a member's record as the result of a portability agreement counts toward:

- Vesting in VRS,
- Eligibility for an unreduced benefit,
- Determining the early retirement reduction factor, if any, that would apply,
- Qualifying for a health insurance credit, if applicable, and
- Eligibility for Group Life Insurance coverage in retirement, if applicable.

A member who was not vested in the former employer's retirement plan at termination, even though the employer has a reciprocal agreement with VRS, is not eligible. A member who took a refund of contributions is also not eligible. An individual whose benefits are subject to attachment including an *Approved Domestic Relations Order (ADRO)*, spousal or child support is not eligible. If the ADRO is on file with either employer, the member is not eligible.

**Note:** Portability agreements can only be established between VRS and any of Virginia's political subdivisions that have their own defined benefit plans. The following political subdivisions have reciprocal portability agreements with VRS: County of Fairfax, City of Charlottesville, City of Newport News, City of Norfolk, City of Richmond, City of Danville, and City of Roanoke. The County of Arlington, and City of Falls Church are eligible to establish a portability agreement with VRS, but have not done so. The portability agreement must:

- Specify eligibility and establish a time frame for portability to become effective,
- Establish procedures for converting the value of the benefits accrued in one plan, called the transferring plan, to the other plan, called the accepting plan, and
- Specify how the resulting service credit may be counted.

### Transferring Service Credit from ORPPA

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Members of the Optional Retirement Plan for Political Appointees (ORPPA) who leave their appointed position and become employed in a VRS-covered position with the Commonwealth may transfer their accrued ORPPA contributions and earnings to purchase service in the VRS defined benefit plan. To be eligible, members must not have a break in service between positions.

To initiate the transfer, the member completes the Termination Certification Form-Optional Retirement Plan for Political Appointees (VRS-65E) and returns it to VRS within 15 days of the termination date. Upon receipt of the completed form, VRS sends a cost letter to the member estimating the service credit he or she is able to purchase using the member's ORPPA account balance. The transfer is completed upon a member's completion of a Request for Transfer of Funds from ORPPA to Purchase VRS Service Credit (VRS-101).

The cost associated with this type of transfer is based on actuarial equivalent cost. If the balance of accrued contributions and earnings in the ORPPA account is less than the cost to purchase the entire amount of service credit, the member may contribute personal funds to purchase any remaining service time. If the balance is more than the cost to purchase the entire amount of service, any remaining funds are forfeited to VRS. In no event may the amount of service credit transferred exceed the actual service time in the position covered by the ORPPA.

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## PURCHASED SERVICE CREDIT

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Prior service is a period of service that is not credited to a member's VRS account. It may be service the member lost by taking a refund, or the member may have been on active duty military service, educational leave or leave for birth or adoption of a child. The member also may have accumulated service credit with another public retirement system. Some members are eligible to purchase all or part of certain prior service periods. The Code of Virginia governs the types of service members may purchase.

Purchased service credit increases the retirement benefit and results in a more favorable reduction factor in the case of early retirement. Purchased service counts toward:

- The five years required for vesting (except for purchases using accumulated sick leave),
- The number of years required to qualify for an unreduced benefit,

*The Code of Virginia governs the types of service members may purchase.*

- The 15 years required to qualify for the health insurance credit, if applicable, and
- The number of years required to qualify for group life insurance after retirement, if applicable.

## Eligibility

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*Only active members may purchase service credit.*

Only active members are eligible to purchase service credit. Retirees and members who deferred retirement are not eligible to purchase service because they are no longer active members of VRS. Service credit may be purchased in any category, up to the maximum allowed for the type of service being purchased.

An *active member* does not need to be vested in VRS to be eligible to purchase service.

Eligibility for each type of service is individually evaluated based on the member's work history. Those requirements are described below under "Types of Service That May Be Purchased."

## Types of Service Credit That May Be Purchased

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The following types of service credit may be purchased or granted:

### **Leave of Absence for Active Duty Military Service<sup>2</sup>**

*Military leave may be granted at no cost.*

Active duty service in the Armed Forces is available at no cost if the member was granted approved leave of absence to serve from a VRS-covered employer, the member returned to a VRS-covered position within one year of discharge or release from active duty, and the member was not discharged dishonorably during the period of active duty service. A member who withdrew contributions and interest from VRS must purchase refunded service credit before the military leave can be granted.

You must certify that the member's discharge was not dishonorable using the Certificate of Release or Discharge from Active Duty (DD214) for each

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<sup>2</sup> See [Code of Virginia § 51.1-142.2\(G\)](#).

period of active duty service on the Application for Purchase of Prior Service Credit (VRS-26).

If the member is unable to locate a DD214, a replacement copy can be obtained from the U.S. National Archives and Records Administration's Web site at [www.archives.gov](http://www.archives.gov) or by contacting the:

**National Personnel Records Center  
9700 Page Avenue  
St. Louis, MO 63132**

### **Active Duty Military Service<sup>3</sup>**

An active member may purchase up to four years of active duty U.S. military service credit. Active duty military service means full-time service of at least 180 consecutive days in the United States Army, Navy, Air Force, Marine Corps, Coast Guard or their reserve components. This service cannot be used to qualify the member for a benefit from another retirement system, unless it is active duty military service rendered while in the Reserves or National Guard. The member's discharge must not have been a dishonorable discharge. The member must provide a copy of the DD214 or, in the case of a member in the National Guard, a copy of orders showing the period of active duty.

**Note:** Effective November 16, 2000, retirees who were denied the purchase of active duty military service rendered while in the Reserves or National Guard because that service was used to calculate a federal retirement benefit may now apply for this service. The member must provide a copy of the DD214 or a copy of orders showing the period of active duty and proof of the earlier denial. Purchases will be under the cost structure in effect at the time the member retired.

### **Refunded Service<sup>4</sup>**

When a member takes the contributions in his or her retirement account as a refund, the refund cancels service credit the member had with VRS. The member may purchase the total amount of service represented by the

*Members must furnish a copy of the DD214 to purchase military service.*

*If refunded service is used in the calculation of a benefit with another retirement plan, it cannot be purchased.*

<sup>3</sup> See Code of Virginia § 51.1-142.2(B)(1)(i).

<sup>4</sup> See Code of Virginia § 51.1-142.2(C).

refunded amount. If a member purchased refunded VRS service credit through another public retirement system, this same service cannot be purchased through VRS if the member is entitled to a benefit with the other system.

**Note:** The employer is not required to certify refunded service.

### **Educational Leave of Absence<sup>5</sup>**

An active member may purchase up to four years of service credit for any approved educational leave from a *VRS-participating employer*. To qualify for this type of purchase, the employer must certify the member's eligibility and retirement contributions must not have been made during the period of leave.

### **Private Institution Merged with a Public Institution<sup>6</sup>**

An active member who worked at a private institution of higher education that merged with a public institution of higher education may purchase up to four years of the service credit. However, the public institution must have issued new degrees for the member to be eligible.

To purchase the service credit at a 5-percent rate, the member must begin the purchase within three years under the following conditions:

- If the degrees were issued prior to July 1, 2006, the member's three-year 5 percent eligibility rate starts from July 1, 2006.
- If the member begins employment in a VRS-covered position after July 1, 2006, the member has three years from the start of employment to purchase at the 5 percent rate.
- If the public institution issues the degrees after July 1, 2006, the three-year 5 percent eligibility rate begins from the date when the degrees are issued.

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<sup>5</sup> See *Code of Virginia* § 51.1-142.2(B)(2)(i).

<sup>6</sup> See *Code of Virginia* § 51.1-142.2(B)(1)(v).

Any service credit purchased after the three-year eligibility will be at a higher actuarial equivalent rate.

*Birth or adoption leave must have begun immediately after the birth or adoption of a child.*

### **Leave for Birth or Adoption of a Child<sup>7</sup>**

An active member who took leave from a VRS-covered position for the birth or adoption of a child may purchase up to one year of service credit (or the actual amount of leave taken if less than one year) per occurrence. A member may purchase up to a lifetime maximum of four years of this type of service credit, if qualified. To qualify, the leave must have occurred immediately following the birth or adoption of a child and be certified by the employer. Both parents are eligible to purchase this type of service, but the leave must have begun for each parent at the time of the birth or adoption.

### **Public Service<sup>8</sup>**

An active member may purchase up to four years of creditable service while employed in a full-time, permanent, salaried position with:

- A state or territory of the United States,
- A political subdivision of Virginia not participating in VRS or another state or territory of the United States, and
- A public school system or institution of higher learning of another state or territory of the United States.

To qualify, the member must have the former employer certify the period of service and that the member is not eligible for a retirement benefit based on this service.

*Service as a school superintendent costs 10% of creditable compensation or AFC if purchased within one year of eligibility.*

### **Service as School Superintendent<sup>9</sup>**

An active school superintendent with at least five years of creditable service as a superintendent may purchase up to 10 years of public service credit while employed in a full-time, permanent salaried position with another state or political subdivision that is not covered under VRS. Each year of service costs 10 percent of the superintendent's *creditable compensation or average final compensation (AFC)*, whichever is higher, if purchased in a lump-sum payment within **one** year of becoming eligible. After the one-year

<sup>7</sup> See Code of Virginia § 51.1-142.2(B)(2)(ii).

<sup>8</sup> See Code of Virginia § 51.1-142.2(B)(1)(ii).

window of eligibility, the purchase can only be made at the *actuarial equivalent cost*. This same service cannot be used to qualify the member for a benefit from any other retirement plan including a defined contribution plan.

A school division superintendent must remain in his or her position with the local school division for the number of months purchased. If the member does not, the purchased superintendent service will be reduced to the amount of time served in the superintendent position with the local school board after purchasing, and the excess will be refunded back to the member.

### **Federal Service in Other Government Agencies<sup>10</sup>**

An active member may purchase up to four years of full-time, permanent, salaried federal service, including service in the Peace Corps. To qualify, a member must have the former employer or the U.S. Office of Personnel Management certify the service. The service to be purchased cannot entitle the member to a benefit with any other retirement plan. The Office of Personnel Management's address is:

**Office of Personnel Management  
Box 45  
Boyers, PA 16017**

An active member may also purchase up to four years of full-time federal service in AmeriCorps service. Service should be certified by AmeriCorps VISTA or AmeriCorps NCCC.

### **Non-Covered Service with a Participating Employer<sup>11</sup>**

Certain VRS members who were previously employed by a VRS employer, but were not eligible for VRS coverage, may be eligible to purchase that service credit if the member was in a part-time, wage or full-time, permanent, salaried position. An active member may purchase up to four

*Former wage employees may purchase non-covered service with a participating employer once employed in a full-time classified position.*

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<sup>9</sup> See Code of Virginia § 51.1-142.3.

<sup>10</sup> See Code of Virginia § 51.1-142.2(B)(1)(iv).

<sup>11</sup> See Code of Virginia § 51.1-142.2(B)(1)(vi).

<sup>11</sup> See Code of Virginia § 51.1-142.2(B)(1)(v).

years of this type of service. A member may not purchase service for a period of employment for which he or she received a retirement benefit.

To qualify for this type of purchase, the member must meet the following conditions:

*For every 173 hours worked, a member may purchase one month of service.*

- The former employer must certify the employment start date, end date, and number of hours worked.
- The member must have worked a minimum of 173 hours in the position. Service with multiple employers may not be combined to achieve the 173-hour minimum. This service is calculated as one month of service for each 173 hours with a single employer.

Round up to the nearest whole number when determining the number of months of service credit that can be purchased. For example, a member who has 174 hours of service is eligible to purchase two months of service credit. However, a member who has only 172 hours of service may not purchase any service credit.

Employers establish guidelines regarding the types of acceptable documentation. You should advise your employees what documentation your agency requires for certification. Employers may use the following to certify service if payroll records are not available:

- Pay stubs
- Wage/Tax Statement (W-2)
- Social Security Earnings Statement

**Note:** Members may request and complete the Social Security Information Form SSA 7050 at a local Social Security Administration office to obtain a statement of quarterly earned wages and list of employers, beginning with calendar year 1978. No detailed information is available prior to January 1978 because only yearly wages were listed prior to that date. There is a fee to obtain this information.

### **Service Not Included in a Portability Transaction<sup>12</sup>**

*Up to 4 years of service not transferred under portability may be purchased as non-ported service.*

A portability transaction transfers the present value of a member's benefit to VRS. In some cases, the member may not receive full service credit for the total years of service earned in a former employer's retirement plan. In those cases, an active member may purchase up to four years of the remaining

<sup>12</sup> See [Code of Virginia](#) § 51.1-142.2(B)(1)(iii).

service credit as non-ported service not transferred to VRS in the portability transaction. An additional four years of service credit remaining in excess of the four years may qualify for purchase under the Public Service provision.

The following conditions apply to non-ported service:

- The member's former employer must have a reciprocal portability agreement with VRS.
- The additional four years of non-ported service purchased as public service assumes the member has not already used the four-year limit.
- The purchase of non-ported service is not allowed if the period of the service overlaps with service already in the member's VRS record.
- The service cannot entitle the member to a benefit with any other retirement system.

### **Purchases Using Accumulated Sick Leave<sup>13</sup>**

A member may purchase VRS service credit at actuarial equivalent cost using payment received for accumulated unused sick leave only at the time of an immediate retirement from the employer that is paying out the accumulated sick leave. To initiate this purchase, the member must have the employer submit an Employer Certification of Accumulated Sick Leave Eligible for Conversion to Service Credit (VRS-26F) to VRS. The amount of the sick leave payout determines the amount of service that can be purchased. The member can elect to use a portion of the payout of accumulated sick leave for the purchase instead of the entire amount. Contact VRS or use the actuarial estimator on the VRS Web site (under Employer Tools) to assist members with determining the actuarial cost.

Only whole months can be purchased; rounding up is not permitted when determining the number of months of service credit that can be purchased. For example, 10.7 months is not rounded up; only 10 months may be purchased.

Monies paid out to an employee from the employer are subject to income tax. If the employer deducts taxes from the payout of accumulated sick leave prior to determining payment, the member can add personal funds to

*Purchases using accumulated sick leave are at actuarial equivalent cost.*

account for this deduction. This payment must be made to the employer, who in turn submits the payment of the full amount to VRS.

The member must start receiving a VRS retirement benefit immediately upon terminating covered employment if purchasing service credit using accumulated sick leave. The retirement date cannot be deferred. Processing of the retirement benefit may be delayed while the purchase using accumulated sick leave is being processed.

**Note:** Members of the *Virginia Sickness and Disability Program (VSDP)* are not eligible to purchase service credit using accumulated sick leave. Members were allowed to convert their sick leave balance to either service credit or disability credits when they first joined VSDP. A member who terminates or retires may convert any unused disability credits to service credit at the rate of 173 disability credits to one month of service credit (one month of service credit is granted if the member has between 1 and 173 hours of disability credits) or be paid for the credits .

### **Service Not Reported by Employer<sup>14</sup>**

This is a period of service that was omitted from the employer's VRS monthly membership report. This type of error usually occurs because the member is not added to the monthly membership report at the time of employment or upon return from a leave without pay. Service not credited to a member's record may be purchased as follows:

### **Service Not Reported Within the Most Recent Three Years**

If the omission occurred within three years of the current month and year, the employer corrects the error by submitting an Error Adjustment Report (VRS-1501). The cost to purchase this service is based upon the member's creditable compensation, as well as member and employer rates in place at the time of the error. The employer is required to pay the cost for the member, if applicable, and to submit it to VRS with the VRS-1501. Instructions for completing the VRS-1501 can be found in Chapter 2 "Membership."

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<sup>13</sup> See [Code of Virginia § 51.1-142.2\(D\)](#).

<sup>14</sup> See [Code of Virginia § 51.1-142.2\(E\)](#).

**Service Not Reported Prior to the Most Recent Three Years**

If the omission occurred prior to the most recent three years from the current month and year, the service may be purchased by completing a Certification of Service Not Reported by Employer (VRS-1502). The member's employer at the time of the error was made completes the form and submit it to VRS for processing. The completed Certification of Service form should be submitted to:

**Virginia Retirement System  
Records Maintenance Unit  
P.O. Box 2500  
Richmond, VA 23218-2500**

Once the application to purchase this service is approved, VRS notifies the employer of the cost to purchase this service and automatically charges the total cost to purchase the member's service to the employer's account. From that cost, 5 percent of the member's creditable compensation during the time contributions were not made will be credited to the member's contribution account and the balance of the cost is posted to the employer's account. This amount is non-refundable to the member.

**Cost to Purchase Service**

The cost to purchase service credit is 5 percent of creditable compensation at the time of purchase or average final compensation (AFC), whichever is higher. The member must purchase or contract to purchase the service credit within three years of becoming eligible to maintain the 5-percent rate. The three-year period begins when the member first becomes eligible and ends three calendar years from that date, regardless of whether the member is eligible to purchase throughout the three-year period. Periods of military leave are excluded from the three-year period. After the three-year period, the member's cost will be based on a higher actuarial equivalent rate.

The cost to purchase prior service credit for a member who chooses payroll deduction and contracts to buy the service credit within three years of

*These provisions do not apply to purchases of refunded service, service as school superintendent, and purchases using accumulated sick leave payouts.*

becoming eligible is always 5 percent of current compensation (even if the average final compensation is higher).

**Example:** In March 2007, the member took a 12-month leave of absence for the birth of a child, and returned to a covered position in March 2008. The member is eligible to purchase the leave for the birth of a child at 5 percent until March 2011.

If purchasing a period of refunded service, the cost is based on 5 percent of creditable compensation at the time of purchase or AFC, whichever is higher; however, if the purchase is made outside the three-year window, the purchase must be made in a lump sum. Contact VRS or use the actuarial estimator on the VRS Web site (under Employer Tools) to assist members with determining the actuarial cost.

### **5-Percent Calculation Example**

Susan is working for the Department of Corrections in a full-time position covered under VRS. Prior to entering a VRS-covered position, Susan worked 1,384 hours for the Department of Taxation as a wage employee. This service qualifies under the “Non-Covered Service with a Participating Employer” provisions. After the Department of Taxation verified her hours, Susan submitted her VRS-26 application to VRS, which approved the purchase of eight months of service.

Susan's Creditable Compensation at the time of purchase	\$42,000
Susan's Average Final Compensation (AFC)	\$39,500

<b>Step 1. Divide the number of hours worked by 173 to calculate the number of months available for purchase.</b>	
	$\begin{array}{rcccc} 1,384 & / & 173 & = & 8 \\ \hline & / & 173 & = & \end{array}$
<b>Step 2. Choose the highest of Creditable Compensation at the time of purchase or AFC, upon which to base the calculation to purchase service, then multiply that sum by 0.05.</b>	
	$\begin{array}{rcccc} \$42,000 & \times & 0.05 & = & \$2,100 \\ \hline & \times & 0.05 & = & \end{array}$
<b>Step 3. Divide the result of Step 2 by 12 to express the cost to purchase one month of service.</b>	
	$\begin{array}{rcccc} \$2,100 & / & 12 & = & \$175 \\ \hline & / & 12 & = & \end{array}$
<b>Step 4. Multiply the result of Step 3 by the total months of service approved for purchase calculated in Step 1. This figure represents the total cost to purchase the number of approved months of service.</b>	
	$\begin{array}{rcccc} \$175 & \times & 8 \text{ months} & = & \$1,400 \\ \hline & \times & \text{ months} & = & \end{array}$

### Actuarial Cost Example

John has worked for the Department of Corrections in a full-time position covered under VRS since July 1, 2001. Prior to entering a VRS-covered position, he completed 48 months of active duty military service. This service qualifies under the "Military Service" provisions. After he submits a DD-214 showing an honorable discharge with his VRS-26 application to VRS, he is approved to purchase this service. Because John applied to purchase this service on July 1, 2008, he must purchase this service based on actuarial equivalent cost. You may calculate actuarial equivalent cost estimates using the Purchase of Prior Service Actuarial Cost Estimator. Select "Purchase of Prior Service" under the Member Options, and then select "Figuring Your Costs." The following screen appears:

Commonwealth of Virginia | Governor

Virginia Retirement System

Providing Financial Security for Virginia's Public Employees

Employers Members Retirees Defined Contribution Plans

Member Options

Member Log-In

Benefit Plans

Calculator & Estimator

FAQs

Forms

Publications

Retirement Readiness

Education & Counseling

Purchase of Prior Service

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Search

Home > Members > Purchase of Prior Service > Figuring Your Costs

### Figuring Your Costs

Within three years of becoming eligible to purchase prior service credit, the cost will be based on 5 percent of your compensation at the time of your purchase or your average final compensation, whichever is higher. After three years, you will pay a higher [actuarial equivalent cost](#).

#### Cost Comparison

Figure your cost at 5 percent:

1. Multiply your current annual compensation or average final compensation by 0.05.
2. Divide the result by 12. That gives you the cost to purchase one month of service.
3. Multiply that cost by the total number of months you wish to purchase. That's your total cost at 5 percent.

Now go to the [Actuarial Equivalent Estimator](#) to find out what the cost would be if you apply after three years of becoming eligible.

#### See Also

- [Applying](#)
- [Eligible Types of Service](#)
- [Payment Methods](#)

#### Resources

- [VRS Handbooks](#)
- [Purchase of Prior Service Forms](#)

Virginia Retirement System  
1200 East Main Street  
P.O. Box 2500  
Richmond, VA 23218-2500  
1-888-827-3847

[Map & Directions](#)

[Contact Us](#)

Back to top

Click the “Actuarial Equivalent Estimator” link.

When the next screen appears, enter the required information.

### Purchase of Prior Service Actuarial Estimator

This on-line tool provides an estimate of the actuarial equivalent cost of purchasing service. All fields need to be completed to generate an estimate. Remember, this is only an estimate. A completed application for purchase of prior service credit must be submitted and approved by VRS prior to submitting a payment.

**NOTE:** None of these estimates are to be viewed as final. Eligibility and the calculation of costs are governed by the Code of Virginia and are subject to change. The actual cost will be provided by VRS in response to your formal application to purchase service credit. Click **bold green** links for definitions of terms used.

1.	Select purchasing type	<input type="text"/>
2.	Select your employer type	<input type="text"/>
3.	Enter your date of birth (mm-dd-yyyy)	<input type="text"/>
4.	Enter the date you expect to purchase this service. (mm-dd-yyyy)	<input type="text"/>
5.	Enter your years and months of service as of the date entered in Step 4.	<input type="text"/> Years <input type="text"/> Months
6.	Enter your current annual salary or your <b>Average Final Compensation (AFC)</b> .	<input type="text"/>
7.	Click on the "Calculate" button to prepare your estimate. <i>(results appear on next page)</i>	<input type="button" value="Calculate"/> <input type="button" value="Clear"/>

**More Information**

[Email Your Actuarial Estimator Question\(s\)](#)  
[Eligible Types of Service](#)  
[Purchase of Prior Service Section](#)

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The next screen appears with the actuarial equivalent cost estimates:

### Purchase of Prior Service Actuarial Estimator Results

NOTE: None of these estimates are to be viewed as final. Eligibility and the calculation of costs are governed by the Code of Virginia and are subject to change. The actual cost will be provided by VRS in response to your formal application to purchase service credit.

IMPORTANT: Using your "BACK" Button may generate inaccurate results. Please use the "MODIFY" Button.

Your Entries			
Age at Purchase:	40 years	Current Salary/AFC:	\$48000.00
Date of birth:	11-15-1966	Employer type:	State/Political Subdivision
Date of Purchase:	07-01-2007	Service:	4 Years and 0 Months.

#### Cost to Purchase Given Month(s)

Month(s)	Purchase Cost	Month(s)	Purchase Cost	Month(s)	Purchase Cost	Month(s)	Purchase Cost
1	287.52	13	4,111.34	25	12,072.37	37	20,375.48
2	575.05	14	4,772.38	26	12,761.88	38	21,094.00
3	862.57	15	5,433.43	27	13,451.39	39	21,812.52
4	1,150.10	16	6,094.48	28	14,140.90	40	22,531.04
5	1,437.62	17	6,755.53	29	14,830.40	41	23,249.56
6	1,725.14	18	7,416.58	30	15,519.91	42	23,968.08
7	2,012.67	19	8,077.62	31	16,209.42	43	24,686.60
8	2,300.19	20	8,738.67	32	16,898.93	44	25,405.12
9	2,587.72	21	9,399.72	33	17,588.44	45	26,123.64
10	2,875.24	22	10,060.77	34	18,277.94	46	26,842.16
11	3,162.76	23	10,721.82	35	18,967.45	47	27,560.68
12	3,450.29	24	11,382.86	36	19,656.96	48	28,279.20

**More Information**

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## Methods of Payment

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*Members must purchase prior service while still employed.*

The member must submit an Application for Purchase of Prior Service Credit (VRS-26). After receiving the cost letter, the member must determine how to pay for the service. The member may pay for prior service credit using either payroll deductions, lump-sum or a combination of payroll deductions and lump-sum payment:

### **Payroll Deductions**

*Payroll deduction is available for purchases made at the 5 percent rate.*

An active member may purchase prior service credit through payroll deduction. Payroll deduction is available only for purchases of service credit costing 5 percent of creditable compensation or AFC. Service credit purchased at any other cost may not be purchased through payroll deduction.

**Note:** Only one payroll deduction is allowed at any given time. Since the purchase is a percentage deducted from pay, the amount of the payment increases as salary increases and is based upon the reporting method that the employer has elected. The cost letter instructs the member to contact the benefit administrator, who will explain the payroll options (tax-deferred or after-tax) that have been elected by the employer.

Payroll deductions for employees (including educators) holding 9-, 10-, or 11-month contracts are based on the length of the contract. For example, a teacher with a 10-month contract will have their deduction determined by taking his or her annual creditable compensation divided by 10 and multiplied by 5 percent.

Service purchased by payroll deduction is credited based on contract length:

<b>Length of Contract</b>	<b>How Service is Credited</b>
12-Month	The member is credited with one month of service credit for each month a payroll deduction is withheld.
11-Month*	The member is credited with one month of service credit for each month a payroll deduction is withheld from August through June, except for January. During January, the member receives two months service credit.
10-Month*	The member is credited with one month of service credit for each month a payroll deduction is withheld from September through June, except for November and April. During November and April, the member receives two months service credit.
9-Month*	The member is credited with one month of service credit for each month a payroll deduction is withheld from September through May, except for October, January, and April. During October, January, and April, the member receives two months of service credit.

\*Members who are on 9, 10, or 11-month contracts, but reported to VRS 12 times per year, are credited with service as if they were on 12-month contracts.

Assist the employee in completing one of the following:

- Authorization for After-Tax Payroll Deduction to Purchase Service Credit (VRS-26C), or
- Agreement for Salary Reduction to Purchase Service Credit (VRS-26E) for tax-deferred purchases.

### **After-Tax Purchase through Payroll Deduction**

A member who chooses *after-tax payroll deduction* has 5 percent of VRS reported creditable compensation withheld from each month's pay to purchase a month of service.

Service credit that is purchased using an after-tax payroll deduction includes any service that can be purchased at 5 percent of creditable compensation or AFC, including service lost when a member took a refund provided the member contracts to purchase the refunded service within three years of becoming eligible. Service credit purchased at any other cost may not be purchased through payroll deduction. If the purchase is not completed at termination or retirement and the member is purchasing the service credit on an after-tax basis, the remaining months, if purchased, must be

purchased in a lump-sum payment before the date of termination. In addition, the after-tax purchase may be terminated at any time, and the service remaining on the contract may be purchased later, but may be based on a higher creditable compensation or the actuarial equivalent cost.

### **Tax-Deferred (Pre-tax) Purchase of Service Credit through Salary Reduction**

*Tax-deferred purchases achieve current year tax savings.*

A member who is eligible to purchase service credit at 5 percent of creditable compensation at the time of purchase using salary reduction may purchase the service credit on a pre-tax basis if the employer has elected to offer this option through resolution with VRS. (See Appendix 4-A “Authorization to Pick Up the Employees Contribution to VRS for Past Service Credit under § 414(h) of the Internal Revenue Code” for model resolution language.) A member who chooses to purchase using salary reduction has 5 percent of VRS creditable compensation at the time of purchase withheld from each month’s pay to purchase a month of service. Purchasing prior service credit on a pre-tax basis reduces the amount of gross income that is subject to income taxes. This method of payment allows the member to achieve current-year tax savings while building up the amount of service credit for retirement. Service credit that is purchased on a pre-tax basis includes any service that can be purchased at 5 percent of creditable compensation through salary reduction, including service lost when a member took a refund, provided the member contracts to purchase the refund within three years of becoming eligible to purchase. Service credit purchased at any other cost may not be purchased on a pre-tax salary reduction basis.

**Note:** Even though members may defer income taxes on purchases through payroll reduction, the employer should withhold FICA taxes on the purchase amount.

A member purchasing prior service credit on a pre-tax basis must complete an Agreement for Salary Reduction to Purchase Service Credit (VRS-26E). By signing the VRS-26E, the member is making an **irrevocable** election to purchase the service credit on a pre-tax basis. The VRS-26E lists the

number of months to be purchased through payroll reduction, the dates of the purchase period, and includes an agreement that the service credit cannot be purchased through a lump-sum payment. A member must contract to purchase the service credit at least 12 months at a time unless the member has less than 12 months to purchase. Before the contract is completed, the member can then complete another VRS-26E to purchase additional months of service credit. For the member to retain the right to purchase at the 5-percent rate, there can be no break between contracts. **If the member terminates or retires from a VRS-covered position before completing the pre-tax contract, any remaining service in the agreement cannot be purchased.**

**Note:** Advise your members of the risk in signing a VRS-26E contracting for more than 24 months. Member employment changes may prevent the completion of the contract and cause the loss of those months for purchase.

VRS cannot deviate from Internal Revenue Service rules governing this type of 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 § 457, a tax-sheltered or tax-deferred annuity plan under IRC § 403(b), or other tax-sheltered plans. Although the contribution used to purchase service credit on a tax-deferred basis is not counted as this type of contribution, limitations for these plans are also based on gross taxable income. Purchasing prior service credit on a tax-deferred basis reduces gross taxable income, so the maximum amount a member could contribute to other tax sheltered plans could be reduced. VRS recommends the member consult a financial advisor before initiating a tax-deferred purchase of prior service credit.

*Only one salary reduction is allowed at any given time to purchase service credit.*

The salary reduction election can include all or part of the prior service credit the member is eligible to purchase. The member cannot start a new purchase of prior service contract under a tax-deferred arrangement until the previous contract is completed. However, this does not prevent the member from purchasing service credit not under the contract in a lump sum.

The purchase of prior service credit on a pre-tax basis has no effect on a member's creditable compensation for retirement or group life insurance purposes.

### **Lump-Sum Payments**

A member may purchase any portion of the eligible service credit with an after-tax *lump-sum payment*. A member who is purchasing service credit in a lump sum completes the bottom portion of the cost letter. The member writes the number of months of service credit to purchase and multiplies this number by the dollar amount listed for the cost per month. This amount is written in the total cost area. The purchase must equal at least the cost of one month of service.

The member has 90 days from the date of the cost letter to submit a lump-sum payment based on the cost provided. If the member does not purchase service within 90 days of receiving the cost letter and a salary increase is reported to VRS for the member, the member must request a new cost letter. When submitting a check, the member should make certain the check is for the correct amount and is made payable to the "Treasurer of Virginia-VRS."

### **Trustee-to-Trustee Transfers/Rollover Distributions**

VRS, as a 401(a) qualified governmental defined benefit plan, may accept a *trustee-to-trustee transfer* from a 403(b) tax saving/sheltered annuity and/or a 457(b) governmental deferred compensation plan or a qualified rollover for the purchase of service credit. VRS accepts rollovers for the purchase of service from the following types of plans:

- 403(b) tax-sheltered annuities;
- 457(b) governmental deferred compensation plans;
- 401(a) qualified plans including 401(k), profit sharing, money purchase pension, and other defined contribution and defined benefit plans that pay lump sums or other eligible rollover distributions; and
- 408 Traditional IRAs (but not Roth IRAs).

*VRS accepts rollovers from qualified plans.*

The member is responsible for providing written verification from the financial institution that the funds may be transferred or rolled over to a 401(a) plan. To initiate payment, the member completes a Request for Trustee-to-Trustee Transfer or Rollover of Funds to Purchase Service Credit (VRS-26G). The check from the financial institution must be made payable to the "Treasurer of Virginia-VRS."

*Checks must be in the exact amount.*

Payment must not exceed the cost of the purchase. Checks in excess of the total purchase cost shown on the cost letter are returned to the member in a check made payable to the transferring plan. The member must request a new check from the transferring plan and resubmit it to VRS.

If funds from the transferring plan are less than the total purchase cost shown on the member's current cost letter, the check is returned to the member. The member may return the check with added funds or have the plan issue a new check for the correct amount if sufficient funds are available in the plan.

Funds transferred from a 403(b) tax saving/sheltered annuity or 457(b) governmental deferred compensation plan to the VRS 401(a) qualified defined benefit plan are tax-deferred until paid from VRS as a refund or monthly benefit. Once transferred, the funds receive the same tax treatment as the VRS plan when distributed. Therefore, if the member takes a refund from VRS later and chooses not to roll the money into another plan, VRS withholds 20 percent federal tax and 4 percent state tax (if the member is a Virginia resident) on the taxable portion of the refund. In addition, the member may be subject to a 10 percent penalty if under age 59½ at the time of the refund.

### Application Process

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*Members must purchase prior service while still employed.*

A member must apply and pay for prior service credit while actively employed in a VRS-covered position. The member is responsible for applying for eligible periods of prior service. If prior employers are unable to certify the service and if contribution records are not available to VRS, the

purchase will not be approved. If a member plans to purchase service in a lump-sum payment, the completed application must be received by VRS at least 90 days before the effective date of termination or retirement to ensure the completion of the purchase before becoming a member in a deferred status or retiree. The VRS account cannot be credited with prior service after the date of termination or retirement.

### How to Apply

1. The member completes Part A of the Application for Purchase of Prior Service Credit (VRS-26) and enters the Social Security number at the top of each page. If the member requests the purchase of service from more than one prior employer, a separate application must be completed for each employer.
2. If the member is applying for service that requires employer certification, he or she forwards the application to the employer where the service was earned. (Employer certification is not required for refunded service and military service. A copy of the member's DD214 must be attached for military service and military leave.)
3. The employer where the service was earned certifies the prior service in part B and forwards the completed application to VRS at the address shown below. If certifying federal or public service, the employer forwards the application to the retirement system in which the member participated. The retirement system completes Part C and mails the application to:

**Virginia Retirement System  
P.O. Box 2500  
Richmond, Virginia 23218-2500**

*The employer must certify the service.*

### Notification of Eligibility

When the application is received, VRS researches the member's records to determine eligibility to purchase the requested service. Members who are ineligible to purchase service will be notified. VRS sends a cost letter to eligible members. (This process may take about four weeks.) The cost letter explains the cost to purchase the service and the number of months approved for purchase. Information about the methods of payments is included with the cost letter. If the member does not purchase service within 30 days of receiving the cost letter and there is an increase in the member's

salary, which is reported to VRS, the member must request a new cost letter. If this is the case, the cost to purchase the service increases.

A member who receives a salary reduction that reduces current creditable compensation below AFC is eligible to continue purchasing by payroll deduction. The deduction continues to be 5 percent of creditable compensation.

### **Completing the Application for Purchase of Prior Service Credit (VRS-26)**

<b>In this field:</b>	<b>Enter the following:</b>
PART A	
1. Social Security Number	The last four digits of the member's Social Security number (maybe – not sure how this will shake out)
2. Daytime Phone Number	The phone number where the member can be reached during work hours
3. Name	The member's first, middle, and last name
4. Address	The member's home mailing address
5. Previous Names Used	The member's previous name, if the member's name has changed
6. Birth Date	The member's date of birth
7. Type of Service Requested	The member checks the type of service being requested to purchase from the employer who receives the application
8. Employer at Time of Service	The member identifies the employer at the time of service
9. Dates of Service	The member identifies the date ranges at the time of service
10. Retirement Benefit	The member indicates if the service that is to be certified will entitle him or her to a retirement benefit
11. Member Certification	The member certifies the form by signing and dating

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**In this field:**

**Enter the following:**

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PART B

The period of service for which the member requests a purchase

VRS-Participating employers at the time of service to be purchased certify the following types of service:

- Leave of Absence for Military Service
- Leave of Absence for Births or Adoptions
- Educational Leave of Absence
- Non-covered service with a VRS-Participating employer
- Federal Service
- Public Service

The employer certifies the form

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PART C

If the member has federal or public service to be certified, the Retirement System must complete this section, sign and date to certify the service

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A sample of the Employer Certification section of the form is shown below.  
 The member must mail the completed form to:

**Virginia Retirement System**  
**P.O. Box 2500**  
**Richmond, Virginia 23218-2500**

12. Social Security Number
----------------------------

**PART B. EMPLOYER CERTIFICATION OF SERVICE**  
 (Human Resources Representative: Complete this section.)

Type of Service/Leave Credit to be Purchased	From (Month/Year)	Through (Month/Year)
<b>13. Leave of Absence for Active Military Service (No cost) from a VRS-Covered Position</b> <input type="checkbox"/> I certify discharge was not dishonorable. (Reference Page 4 of DD214.) <input type="checkbox"/> I certify the employee returned to work within one year of discharge.		
<b>14. Leave of Absence for Births or Adoptions from a VRS-Covered Position</b>		
<b>15. Educational Leave of Absence from a VRS-Covered Position</b>		
<b>16. Non-Covered Service with a VRS-Participating Employer</b> Total Hours: _____		
<b>17. Federal Service</b> (Permanent, full-time, salaried. Identify any breaks in service in the section below.)		
<b>18. Public Service</b> (Permanent, full-time, salaried. Identify any breaks in service in the section below.)		
<b>19. Explanation of breaks in service (for federal or public service)</b> _____ _____		
<b>20. Name of retirement system or plan in which he/she participated (for federal or public service):</b> _____		
<b>21. Certification</b> I hereby certify that the service/leave period listed above is true and correct based on official records. For federal or public service, I hereby certify that the individual was engaged in public or federal employment in a permanent, full-time, salaried position with a state agency, public school system, public institution of higher learning, political subdivision in this or another state or territory of the United States, or with a federal agency during the above stated time period. Service with a private employer is not eligible. Further, to my knowledge, the service/leave period listed above is not used in the calculation of any retirement benefit received or to be received from any other retirement system including those from a defined contribution plan, with the exception of reserve or national guard pensions.  The Code of Virginia §51.1-124.10 states that any person who knowingly makes false statement or falsifies or permits the falsification of any record related to eligibility for membership in the Fund in any attempt to defraud the Fund shall be guilty of a Class 1 misdemeanor.		
Signature _____	Phone _____	Date _____
Printed Name _____	_____	Title _____
Employing Agency Name _____	_____	Address _____
VRS 5-digit Employer Code (if it applies) _____	_____	City/State/Zip _____

VRS-26 (Rev. 09/08)

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APPENDIX 4-A AUTHORIZATION TO PICK UP THE  
EMPLOYEES CONTRIBUTION TO VRS FOR PAST SERVICE  
CREDIT UNDER § 414(H) OF THE INTERNAL REVENUE  
CODE

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WHEREAS, the [Participating Employer] desires to provide its employees with tax deferral pursuant to § 414(h) Internal Revenue Code with respect to their member contributions to the Virginia Retirement System, the State Police Officers Retirement System and the Judicial Retirement System (collectively referred to as VRS) for the permissible purchase of past service credit by picking up member contributions to the VRS; and

WHEREAS, the pick up is authorized under Virginia Code Sections 51.1-142.2; as such Code has been or may be amended from time to time

WHEREAS, the VRS keeps track of such picked up member contributions, and is prepared to treat such contributions as employee contributions for all purposes of VRS;

NOW, THEREFORE, IT IS HEREBY RESOLVED that effective the first pay day on or after the later of [Date of this Resolution] or the date the member executes a binding and irrevocable salary reduction election relating to the past service permitted to be purchased, the [Participating Employer] shall pick up all or a portion of the member contributions of its employees to VRS based on the terms of the salary reduction election, and such contributions shall be treated as employer contributions in determining tax treatment under the Internal Revenue Code of the United States; and it is further

RESOLVED, the binding salary reduction election to be executed by the member shall include the following: (1) the beginning and ending date of the election, (2) the amount of the salary reduction on a pay period by pay period basis, (3) the total amount of contribution expected to be involved, (4) a statement that the member may not receive the contributed amounts instead of having them paid by the [Participating Employer] to the VRS, and (5) an agreement that the member will not purchase the service credit through a lump sum payment during the period in which the salary reduction election is in effect, and it is further

RESOLVED, the member may revoke the salary reduction election only in the event of an unforeseeable emergency as that phrase is used and defined in IRC Section 457 and Treasury Regulation Section 1.457-6(c)(ii) and if such a revocation is made, the member may not make a new salary reduction election during his period of employment, and it is further

RESOLVED that such contributions, although designated as member contributions, are to be made by the   [Participating Employer]   in lieu of member contributions; and it is further

RESOLVED that pick up member contributions shall be paid from the same source of funds as used in paying the wages to affected employees; and it is further

RESOLVED that member contributions made by the   [Participating Employer]   under the pick up arrangement shall be treated for all purposes other than income taxation, including but not limited to VRS benefits, in the same manner and to the same extent as member contributions made prior to the pick up arrangement; and it is further

RESOLVED that nothing herein shall be construed so as to permit or extend an option to VRS members to receive the pick up contributions made by the   [Participating Employer]   directly instead of having them paid to VRS; and it is further

RESOLVED that notwithstanding any contractual or other provisions, the wages of each member of VRS who is an employee of the   [Participating Employer]   shall be reduced by the amount of member contributions picked up by the   [Participating Employer]   on behalf of such employee pursuant to the foregoing resolutions.

Adopted in \_\_\_\_\_, Virginia this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Printed Name and Title