

PURCHASE OF PRIOR SERVICE CREDIT

EMPLOYER MANUAL

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PURCHASE OF PRIOR SERVICE CREDIT

EMPLOYER
MANUAL

An employee earns service for each month reported in the employer's snapshot. Prior service is a period of service that is not credited to his VRS account. The employee may increase his creditable service by purchasing certain types of eligible service¹ or by applying for service at no cost in certain circumstances. Most types of service are certified by the employer in *myVRS* Navigator.

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 15 years required to qualify for the health insurance credit (if applicable) and the amount of the credit calculated at retirement,
- The number of years required to qualify for group life insurance after retirement, if applicable, and
- The hazardous duty supplement in some cases. (See the Hazardous Duty chapter – coming soon.)

ELIGIBILITY

Only active employees 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 Retirees and members who deferred retirement are not eligible to purchase service because they are no longer active members of VRS. An active employee does not need to be vested in VRS to be eligible to purchase service. Service credit may be purchased in any category, up to the maximum allowed for the type of service being purchased. Eligibility for each type of service is individually evaluated based on the employee's work history.

¹ See [Code of Virginia § 51.1-142.2](#).

TYPES OF SERVICE CREDIT

If eligible, an employee may purchase or be granted the following types of service credit:

REFUNDED SERVICE

When an employee receives the retirement contributions in his retirement account as a refund, the refund cancels service credit he had with VRS. The employee may purchase the total amount of service represented by the refunded amount. If the employee purchased refunded VRS service credit through another public retirement system, this same service cannot be purchased through VRS if the employee is entitled to a benefit with the other system.

The employer is not required to certify refunded service. In most instances, any refunded service an employee is eligible to purchase will be visible on the Service Purchase and Eligibility Screen in *myVRS Navigator*. If an employee has refunded service that includes eligibility dates prior to 7/1/88 and the eligibility is not visible in *myVRS Navigator*, you should direct him to complete an Application for Purchase of Prior Service Credit (VRS-26) so VRS can research the request and add the eligibility.

See the Refunded Service Cost and Payment Methods section of this chapter for more information.

ACTIVE DUTY MILITARY SERVICE

An active employee 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 employee for a benefit from another retirement system, with the exception of the Federal Retirement Plan benefit, which is based on service rendered while in the Reserves or National Guard. The employee's discharge must not have been a dishonorable discharge. The employee must provide a copy of the DD214 or, in the case of an employee in the National Guard, a copy of orders showing the period of active duty.

LEAVE OF ABSENCE FOR ACTIVE DUTY MILITARY SERVICE

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

You must certify that the employee's discharge was not dishonorable using the Certificate of Release or Discharge from Active Duty (DD214) for each period of active duty service. If while on leave, the employee was entitled to any annual salary changes, separate periods of eligibility must be created each time the annual salary changes.

If the employee is unable to locate a DD214, he can obtain a replacement copy from the U.S. National Archives and Records Administration's website at www.archives.gov or by contacting the National Personnel Records Center at:

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

EDUCATIONAL LEAVE OF ABSENCE

An active employee 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 employee's eligibility and retirement contributions must not have been made during the period of leave.

LEAVE FOR BIRTH, ADOPTION OR DEATH OF A CHILD

An active employee who took leave from a VRS-covered position for the birth, adoption or death of a child may purchase the actual amount of service credit missed, up to a maximum of one year of service credit per occurrence. An employee 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. In the case of the death of a child, the leave may have occurred

before or after the child's passing. Both parents are eligible to purchase this type of service.

PUBLIC SERVICE

An active employee 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 employee must have the former employer certify the period of service and that the employee is not eligible for a retirement benefit based on this service.

FEDERAL SERVICE IN OTHER GOVERNMENT AGENCIES

An active employee may purchase up to four years of full-time, permanent, salaried federal service, including service in the Peace Corps. To qualify, the employee must have the former employer or the U.S. Office of Personnel Management certify the service. The service to be purchased cannot entitle the employee 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 employee 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

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 they were in a part-time (including substitute teaching), wage or temporary full-time position. An active employee may purchase up to four years of this type of service. An employee may not purchase service for a period of employment for which he received a retirement benefit.

PURCHASE OF PRIOR SERVICE CREDIT

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

- The former employer must certify the employment start date, end date, and number of hours worked.
- The employee 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, an employee who has 174 hours of service is eligible to purchase two months of service credit. However, an employee 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. There is a fee to obtain this information.

When entering the eligibility, use *myVRS* Navigator to enter the information just as you would any other purchase type. When an employee seeks non-covered service credit for service rendered with an agency other than his current employer, he must complete the VRS-26 and have the agency where the service was rendered certify the form. The former employer should forward the form to VRS where the eligibility will be entered and a cost letter generated.

PURCHASES USING ACCUMULATED SICK LEAVE

An employee 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. The amount of the sick leave payout determines the amount of service that can be purchased. The employee can elect to use a portion of the payout of accumulated sick leave for the purchase instead of the entire amount.

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. An employee who decides to purchase the maximum eligibility most likely will need to submit a supplemental payment to his employer for the amount of the taxes withheld. This payment must be made to the employer, who in turn submits the payment of the full amount to VRS. When the monthly snapshot is created, the amounts will be added and collected to satisfy the purchase. When the snapshot is confirmed, the employee will be notified of the impact to his record.

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.

When initiating an accumulated sick leave purchase, please contact VRS for assistance in determining the employee's eligibility. VRS will assist with calculating and entering the correct number of months a member is eligible to purchase.

CONVERSION OF VSDP DISABILITY CREDITS

Eligible members of the Virginia Sickness and Disability Program (VSDP) 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 he has between 1 and 173 hours of disability credits) or be paid for the credits. The employer enters the eligible number of hours in *myVRS Navigator* as service purchase eligibility after VRS has entered the retirement date. However, if the member is terminating and not retiring, the former employer may enter the number of hours in *myVRS Navigator* to convert disability credits after the separation date is entered.

When counseling an employee on whether to convert disability credits or instead take a payout, please keep in mind the decision to convert is irrevocable. Once you have entered the credits in *myVRS Navigator* and calculated the hours, they have been converted to service credit and cannot be reversed. If the employee decides to convert the disability credits, but does not pay the amount withheld in taxes, whatever service credit that the amount represents cannot be used to calculate a retirement and will be reversed out.

SERVICE NOT REPORTED WHILE ON WORKERS' COMPENSATION

An employee may purchase service for a period when he received only workers' compensation benefits while on short-term disability or up to 24 months of leave without pay. The employer must not have withheld retirement contributions from the workers' compensation payment. The cost to purchase the service is 5% of the employee's creditable compensation.

SERVICE NOT REPORTED BY EMPLOYER

The employer must purchase service for an employee for service that was omitted from the employer's VRS monthly membership report (prior to July 1, 2012) or from the *myVRS* Navigator snapshot (after July 1, 2012). This type of error normally occurs at the time of employment or upon return from a leave without pay.

If the omission occurred prior to the most recent three years from the current month and year, the member's employer at the time the error was made corrects it using the purchase of prior service process in *myVRS* Navigator. The cost for this service is based on an actuarial equivalent rate and must be paid by the employer. The cost to purchase the service is included in the monthly snapshot.

Note: If the omission occurred within three years of the current month and year, the employer corrects the error in the employee's record in *myVRS* Navigator. The correction occurs in the employer's snapshot and is based upon the employee's creditable compensation during the omitted period, as well as employee and employer rates in place at the time of the error.

SERVICE AS A SCHOOL SUPERINTENDENT

An active school superintendent with at least five years of earned creditable service as a superintendent in Virginia 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% 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 window of eligibility, the purchase can only be made at the actuarial equivalent cost. This same service cannot be used to qualify the employee for a benefit from any other retirement plan including a defined contribution plan.

A school division superintendent must remain in his position with the local school division for the equivalent number of months as was purchased under the superintendent provision. If the employee does not remain with the local school division for the equivalent number of months, the purchased superintendent service will be reduced by the number of months he failed to serve as the superintendent with the local school board, and the excess will be refunded back to the employee.

PRIVATE INSTITUTION MERGED WITH A PUBLIC INSTITUTION

An active employee 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 employee to be eligible.

To purchase the service credit at a 5% rate, a Plan 1 member must begin the purchase within three years under the following conditions:

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

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

A Plan 2 or Hybrid Retirement Plan member may purchase the service credit at approximate normal cost within one year from the start of employment or when the degree is issued. Any service credit purchased after the one year eligibility will be at an actuarial equivalent rate.

PORTABILITY TRANSACTIONS

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.² A portability agreement allows an active VRS employee to transfer the present value of benefits from a non-VRS 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. If an employee wants to port service, he should contact VRS.

² See *Code of Virginia* §§ 51.1-143.1 and 51.1-801.1.

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 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.

ELIGIBILITY TO PORT SERVICE

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

- A portability agreement must exist between VRS and the former employer,
- The employee must be actively employed in a full-time VRS-covered position,
- The employee must have been vested in a retirement plan offered by his former employer at the time of termination, and
- The employee must request the transfer of assets within 18 months of first being employed in a covered position by a VRS-participating employer.

An employee 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. An employee who took a refund of retirement 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 employee is not eligible.

SERVICE CREDITED THROUGH PORTABILITY

The actual amount of service credit an employee receives may or may not equal the actual service accumulated under the former employer's plan. The higher of the employee's contribution account or the present value of the benefit in the porting plan is transferred to VRS. The actual amount of VRS service credited is determined by actuarial formulas that take into consideration many factors including the employee'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 porting plan. The employee is advised of the actual amount of service that can be credited prior to porting any assets.

Service credit added to an employee'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.

SERVICE NOT INCLUDED IN A PORTABILITY TRANSACTION

If the portability service amount is less than the actual amount of service accumulated under the former employer's plan, the employee may purchase up to four years of the remaining 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 as public service.

The following conditions apply to non-ported service:

- The additional four years of non-ported service purchased as public service assumes the employee 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 employee's VRS record.
- The service cannot entitle the employee to a benefit with any other retirement system.

SERVICE CREDITED THROUGH ORPPA TRANSFERS

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

An ORPPA participant has the option of requesting an estimate to determine how much service his ORPPA balance would buy if he transferred it to VRS. Prior to requesting an estimate, the participant must have completed the Termination Certification from ORPPA (VRS-65E) and returned it to his employer. The participant must complete the cost letter section on the VRS-65E before an estimate will be processed.

PURCHASE OF PRIOR SERVICE CREDIT

Once a cost letter is generated, the participant has 30 days in which to decide if he wants to complete the conversion of his funds from ORPPA to his defined benefit account. The transfer is completed upon an employee'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 employee 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.

ELIGIBILITY WINDOW

The cost to purchase service can depend on the type of service, the employee's plan and when he buys the service, either within or outside of his eligibility window. The eligibility window begins upon employment in a covered position or following an eligible period of leave.

If service is purchased within the eligibility window, the cost is generally lower, so it's important that the employee purchases the service as early as possible. In addition, an employee has more payment methods available to him within his eligibility window. The eligibility window is based on the employee's plan:

| Plan 1 | Plan 2 & Hybrid Retirement Plan |
|-------------------------------|---------------------------------|
| Three year eligibility window | One year eligibility window |

Note: Refunded service follows different rules. See the Refunded Service Cost and Payment Methods section of this chapter for information about refunded service.

PURCHASE OF PRIOR SERVICE CREDIT

If the employee has not purchased his eligible prior service and leaves his job, he'll remain eligible to purchase it if he returns to covered employment. If he is still within his eligibility window at the time of separation, the window continues to run during his period of separation.

If the employee accrues eligible service after leaving VRS-covered employment and then returns to VRS-covered employment, the eligibility window for this service will begin upon reemployment.

Note: If an employee goes on active duty military leave and returns to covered employment, his eligibility will be extended by the amount of time he was on military leave.

COST TO PURCHASE SERVICE

The cost to purchase most types of service depends on whether the employee is purchasing the service within the eligibility window or after the eligibility window. The most recent service period in *myVRS Navigator* must be purchased first, regardless of the cost.

| | | Within eligibility window | After eligibility window |
|---------------------------|---------------|----------------------------------|---------------------------------|
| 3 year eligibility window | Plan 1 | 5% cost rate | Actuarial Equivalent Cost |
| 1 year eligibility window | Plan 2 | Approximate Normal Cost | Actuarial Equivalent Cost |
| | Hybrid | Approximate Normal Cost | Actuarial Equivalent Cost |

Note: Refunded service follows different rules. See the Refunded Service Section for information about refunded service.

A Plan 1 member who purchases service within the three year eligibility window does so at 5% of his creditable compensation or his AFC at the time of purchase, whichever is higher. After the three year eligibility window, the cost to purchase service for the employee is the actuarial equivalent cost. Actuarial equivalent cost is how much money is needed in today's dollars to fund the increase in the employee's future retirement benefit or earlier retirement eligibility date resulting from purchasing prior service. The actuarial equivalent cost can be determined using the actuarial calculator on the VRS website.

<http://www.varetire.org/calculators/index.asp>

PURCHASE OF PRIOR SERVICE CREDIT

Example: Audrey is a Plan 1 member who works in a VRS-covered position and takes leave for the birth of her child. She returns to work in August of 2009 and works for 6 months, but does not purchase her service. She terminates her position, and begins a new VRS-covered position in February of 2014. Audrey's three year eligibility window to purchase this service began in August 2009 and expired in August 2012. If she wishes to purchase the leave in her new position, she will do so at actuarial equivalent cost.

Plan 2 and Hybrid Retirement Plan members can purchase service within their one year eligibility window at an approximate normal cost rate. Approximate normal cost rate is a percentage of the employee's creditable compensation or AFC at the time of purchase, whichever is higher. Normal cost may be generally defined as the cost of one year of VRS service credit. Plan 2 and Hybrid Retirement Plan members must purchase or enter into a purchase payment agreement to purchase the service credit within one year of becoming eligible to maintain the approximate normal cost rate.

The following chart shows the normal cost rate for state employees, teachers and non-hazardous duty political subdivision employees.

| Plan 2 Normal Cost Rate | Hybrid Retirement Plan Normal Cost Rate |
|------------------------------------|----------------------------------------------------|
| 9.4% | 5.42% |

The cost to purchase service after the eligibility window is at the actuarial equivalent cost rate.

PAYMENT METHODS

The employee has several payment methods, depending on when the service is purchased.

| | Within eligibility window | After eligibility window |
|-----------------------|----------------------------|--------------------------|
| | Purchase Payment Agreement | |
| | or | |
| Payment Method | Lump-sum | Lump-sum |
| | or | |
| | A combination of both | |

Purchase payment agreements can be either pre-tax or post-tax. 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 the employer has elected.

Only one purchase payment agreement is allowed at any given time and can include all or part of the prior service credit the employee is eligible to purchase. However, VRS recommends agreements of no more than 12 months of length. This is because employment changes may prevent the completion of the agreement and cause the loss of those months for purchase. If an employee is finishing a purchase payment agreement and has additional months of service to purchase, VRS sends the employee a letter two months before the agreement ends. In addition, the employer will receive a secure message about the agreement. The employee should renew the agreement approximately 30 days from the end of the previous agreement to ensure there is no gap between agreements and to maintain the cost basis.

Lump-sum payments can be made using a personal check from the employee or through a trustee-to-trustee transfer or rollover distribution.

PRE-TAX PURCHASE PAYMENT AGREEMENTS

If an employer wishes to offer pre-tax purchases, the employer must submit a resolution to VRS. If you have not made this election but wish to, contact VRS. If the employer offers pre-tax purchase payment agreements, an eligible Plan 1 member may enter into an agreement at 5% of his creditable compensation, as long as he is within his three year eligibility window. An eligible Plan 2 or Hybrid Retirement Plan member may enter into an agreement at the approximate normal cost rate if the purchase is within his one year eligibility window.

An employee who chooses to purchase service using a pre-tax purchase payment agreement has the amount withheld from each month's pay to purchase the service. A pre-tax purchase payment agreement reduces the amount of gross income that is subject to income taxes. This method of payment allows the employee to achieve current-year tax savings while building up the amount of service credit for retirement. The purchase of prior service credit on a pre-tax basis has no effect on an employee's creditable compensation for retirement or group life insurance purposes.

Note: Even though employees may defer income taxes on purchases through a pre-tax agreement, the employer should withhold FICA taxes on the purchase amount.

The employee cannot start a new purchase of prior service agreement under a pre-tax arrangement until the previous agreement is completed. However, this does not prevent the employee from purchasing service credit not under the agreement in a lump sum.

If the employee terminates or retires from a VRS-covered position before completing the pre-tax agreement, the employee cannot purchase the service remaining in the agreement. If the employee breaks the agreement for hardship reasons, he may only purchase the service through an after-tax lump sum after the end of the original agreement period.

Note: 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 pre-tax basis reduces gross taxable income, so the maximum amount an employee could contribute to other tax sheltered plans could be reduced. VRS recommends the employee consult a financial advisor before initiating a tax-deferred purchase of prior service credit.

AFTER-TAX PURCHASE PAYMENT AGREEMENTS

An eligible Plan 1 member may enter into an after-tax agreement at 5% of his creditable compensation or AFC, as long as he is within his three year eligibility window. An eligible Plan 2 or Hybrid Retirement Plan member may enter into an agreement at the normal cost rate if the purchase is within his one year eligibility window.

If the purchase is not completed at termination or retirement and the employee 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. An after-tax purchase may be terminated at any time and the service remaining in the agreement may be purchased later, but the cost may be based on a higher creditable compensation or the actuarial equivalent cost.

LUMP-SUM PAYMENTS

An employee may purchase all or a portion of the eligible service credit (not included in a purchase payment agreement) with an after-tax lump-sum payment. If the employee wishes to purchase less than the full amount of eligible service, he must determine the number of months he wants to purchase and sends a check directly to VRS. The purchase must equal at least the cost of one month of service and must purchase a whole number of months. When submitting a check, the employee should make certain the check is for the correct amount and is made payable to the "Treasurer of Virginia-VRS."

The employee has 90 days from the date of the cost letter to submit a lump-sum payment based on the cost provided. If he does not purchase service within 90 days of receiving the cost letter, the employee must request a new cost letter.

Employees on leave without pay (or are off contract) may only purchase service by lump-sum.

TRUSTEE-TO-TRUSTEE TRANSFERS/ROLLOVER DISTRIBUTIONS

VRS, as a 401(a) qualified governmental defined benefit plan, may accept a trustee-to-trustee transfer for the purchase of service from the following types of plans:

- 403(b) tax-sheltered annuities;
- 457(b) governmental deferred compensation plans;
- Qualified plans, 401(a), 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).

When the employee receives the payment options document mailed with the cost letter, he should work with the transferring institution to determine their requirements (such as a copy of the cost letter or a VRS letter of acceptance). When transferring funds to VRS, the check from the financial institution must be made payable to the "Treasurer of Virginia-VRS."

Payment from the transferring institution 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 employee. The employee must work with the transferring institution to obtain a new check in the correct amount and resubmit it to VRS.

It is advised that employees coordinate all sources of funds, personal and transferring institution(s), so that all payments arrive at VRS at approximately the same time as there are limits to how long VRS can hold pre-tax funds. Whenever VRS receives a payment that does not complete the purchase, the employee will receive a letter with the available options.

PURCHASE OF PRIOR SERVICE CREDIT

Funds transferred from a qualified 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 employee takes a refund from VRS later and chooses not to roll the money into another plan, VRS withholds 20% federal tax and 4% state tax (if the employee is a Virginia resident) on the taxable portion of the refund. In addition, the employee may be subject to a 10% penalty if under age 59½ at the time of the refund.

REFUNDED SERVICE COST AND PAYMENT METHODS

Refunded service follows different cost and eligibility window rules than other types of service; however, the employee must still purchase the most recent service first. The eligibility window for Plan 1, Plan 2 and Hybrid Retirement Plan members to purchase refunded service is three years. The cost rate for Plan 1 and Plan 2 members to purchase refunded service is always 5% of his creditable compensation or AFC, whichever is higher. The cost rate for Hybrid Retirement Plan members is always 4% of creditable compensation or AFC, whichever is higher.

If the purchase is made within the three year eligibility window, the employee may enter into a purchase payment agreement or pay by lump sum. If the purchase is made after the three year eligibility window, the purchase must be made in a lump sum.

| Refunded Service | | | | |
|-------------------------|----------------------------|--------------|----------------------|--------------|
| | Within 3 years | | After 3 years | |
| Cost | Plan 1/Plan 2: | 5% cost rate | Plan 1/Plan 2: | 5% cost rate |
| | Hybrid: | 4% cost rate | Hybrid: | 4% cost rate |
| Payment Method | Purchase Payment Agreement | | | |
| | or | | | |
| | Lump-sum | | Lump-sum | |
| | or | | | |
| A combination of both | | | | |

myVRS NAVIGATOR ROLES ASSOCIATED WITH PURCHASING SERVICE

Employers must create and certify service in *myVRS* Navigator for their employees to purchase service. The following roles are associated with the purchase of prior service:

| Employer Roles Associated with Purchasing Service | |
|----------------------------------------------------------|--------------------------------------------------------------------------|
| Employment Processor | Manages employment-related data and creates service purchase agreements. |
| Service Purchase Approver | Approves service purchase payment agreements. |

VRS recommends that these two roles are assigned to two separate individuals. Typically, the Employment Processor is a human resources officer. To ensure that the payment amount can be withheld from the employee's paycheck, the Service Purchase Approver should be a payroll officer.

CREATE AND CERTIFY ELIGIBILITY

Only active employees can purchase service. The service purchase must be completed 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. For step-by-step instructions about how to create and certify eligibility, view the *Purchase of Prior Service Course* in the VRS University.

For most types of service, the employer must create and certify eligibility in *myVRS* Navigator. However, certain types of service must be processed by VRS. The employee must complete an Application for Purchase of Prior Service Credit (VRS-26) for the following types of service:

- Public service,
- Federal service,
- Refunded service prior to July, 1988, and
- Non-covered service with a former employer who participated in VRS

If a school superintendent wants to purchase service, he must request an Application for Purchase of Prior Service Credit (For Superintendents of Schools) (VRS-26H) from VRS.

PURCHASING THE MOST RECENT SERVICE FIRST

The most recent service period in *myVRS Navigator* must be purchased first, regardless of the cost. Once a period of service has been added, it cannot be deleted. If the employee has multiple periods of service to purchase, he will be required to purchase the most recent period first. You should review the cost and payment options of each type of service with the employee before you create a new period of eligibility. Because the eligibility record cannot be deleted, you may wish to have your employees certify in writing their understanding prior to adding eligibility.

Example: An employee has VRS refunded service eligibility in his record. He informs his employer of more recent non-covered service and requests a cost letter. Once the eligibility is added and saved, the employee must purchase the non-covered service before purchasing the refunded period.

GENERATING A COST LETTER

When you create a period of eligibility in *myVRS Navigator*, a cost letter is generated and mailed to the employee. Be sure to review the employee's address to ensure that the cost letter is mailed to the correct address. You may also print the cost letter for the employee.

The cost letter explains the cost to purchase the service, the number of months approved for purchase, as well as information about the methods of payment. In addition, service dates are broken out in the cost letter in order to easily identify the most recent service period, since this must be purchased first.

Note: Purchases of active duty military leave and conversion of disability credits are at no cost, so no cost letter is generated.

Cost letters are valid for 90 days. After 90 days, the cost and payment methods may be affected and it will need to be regenerated. Any newly generated cost letter will always supersede the former one and could affect the cost and payment methods. If there is a current cost letter in *myVRS Navigator*, you should reprint it instead of generating a new one.

CERTIFYING ELIGIBILITY AS A FORMER EMPLOYER

When an employee has service to purchase earned at a former employer, the previous employer will need to certify the service. The current employer initiates the process through *myVRS Navigator* and the former employer certifies the leave period. After certifying the service, *myVRS Navigator* generates a notification to the current employer to complete the purchase request.

You may need to certify non-covered service for a former employee. The employee will send you the VRS-26. Certify the former employee's eligibility for the service earned with you and send the VRS-26 to VRS for processing. For step-by-step instructions about how to certify eligibility for a former employee, view the *Purchase of Prior Service Course* in the VRS University.

CREATE PURCHASE PAYMENT AGREEMENTS

Agreements should always begin on the first day of the month and end on the last day of the month. VRS recommends agreement lengths of 12 months if an employee has 12 or more months to purchase. Agreements should be made continuously, without break, so the cost basis is maintained.

If an employee purchases service through payroll deduction, the employee must enter into a legally binding agreement to purchase the service. An employee purchasing prior service credit on a pre-tax basis must complete an Agreement for Pre-Tax Salary Reduction to Purchase Service Credit (VRS-26E) and submit it to the employer. By signing the VRS-26E, the employee is making an irrevocable election to purchase the service credit on a pre-tax basis. If the employee terminates employment or retires before completing the agreement, the service credit cannot be purchased through a lump-sum payment except under certain circumstances upon returning to work in a covered position.

An employee purchasing prior service credit on an after-tax basis must complete an Agreement for After-Tax Payroll Deduction to Purchase Service Credit (VRS-26C). If the employee separates employment before completing the agreement, he may purchase the remaining months in a lump sum before his termination date. If the employee cancels the

agreement, he may enter into a new agreement if he is within the eligibility window or he can purchase the remaining months in a lump sum.

Enter the agreement information in *myVRS Navigator* and keep the VRS-26C or VRS-26E for your records. For step-by-step instructions about creating purchase payment agreements in *myVRS Navigator*, view the *Purchase of Prior Service Course* in the VRS University.

PURCHASE PAYMENT AGREEMENTS AND CONTRACT EMPLOYEES

Even though an employee in 9, 10 and 11-month contracts receives more than one service credit for each month worked during a contract period, he cannot purchase more than one service credit per month. The employee can only purchase service while he is actively working and not in off-contract months. *myVRS Navigator* does not suspend the agreement for off-contract months, but instead considers these off-contract months to be under agreement. Off-contract months must be included in the agreement duration to ensure that there is no break in the purchase payment agreement.

VRS recommends that purchase service agreements for contract employees be entered with a duration of 12 months and whenever possible, begin at the start of the contract period.

Example: A 10-month employee with a September 1st contract start date has 15 months of eligibility to purchase. He enters into a purchase payment agreement with a duration of 12 months at the beginning of his contract. The employee will purchase one month of service for each month of his 10 month contract. The employee's two off-contract months of July and August are included in the duration in *myVRS Navigator* and this service purchase agreement would end on August 31st. The 10-month employee would then renew his purchase payment agreement effective September 1st to purchase the remaining 5 months of service.

If the eligibility period contains a fraction of a month, the term of the agreement must be rounded up to the next whole month.

Example: A 10-month employee who is out on educational leave for a three month period, which results in eligibility of 3.6 months to purchase. The service purchase agreement should be established for four months. The employee will purchase three full months and 0.6 months in the fourth month.

RENEWING AGREEMENTS

An employee should renew a purchase payment agreement between 30 and 60 days before the original agreement's expiration date. To maintain the cost basis and payment methods, there can be no lapse in the agreement. *myVRS* Navigator allows you to enter the renewed agreement through the effective month's contribution confirmation. To ensure there is no break between agreements, the purchase of prior service contributions must have been withheld from the employee's check from the beginning of the agreement period.

An updated cost letter is not required to renew an agreement. If you generate a new cost letter, the new letter will supersede the old one and could affect the cost and payment methods.

AGREEMENTS FOR EMPLOYEES CHANGING EMPLOYERS

An employee who has a purchase payment agreement may move from one VRS-covered employer to another. The new employer would receive a secure message via *myVRS* Navigator alerting the employer that the person was actively purchasing service. Contact the employee to determine if he wishes to start a new agreement with you to avoid a break in the agreement. The purchase payment agreement and service purchase payroll deductions must take effect beginning the first month the employee is reported to VRS by the new employer to maintain the cost basis.