

PURCHASING SERVICE

Some SERS members may be able to purchase other types of service including previous state, educational or military service to be credited toward their retirement service requirements. The Retirement Code allows for the purchase of several types of service by active, contributing members of SERS and Multiple Service members of the Public School Employees' Retirement System (PSERS).



How does a purchase of service affect my pension benefit?

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

Types of Eligible Service

- **Military** - Have you ever served or are currently in the military or active duty National Guard?
- **Previous State Service** - Were you a member of SERS in the past, but you left state service before you were eligible for a pension and withdrew your contributions? Were you a formerly optional SERS membership employee? Have you ever worked for the commonwealth on a part-time or hourly basis?
- **Non State Educational Service** - Have you ever worked for a public educational institution outside of Pennsylvania?
- **In State Educational Service** - Have you ever worked for a public university and/or community college within Pennsylvania?

If so, you may be able to purchase "credited service" toward your SERS pension. Credited service is used when determining your eligibility for, and the amount of, your SERS pension. The more years of credited service you have, the greater your maximum annual pension will be at retirement, and the sooner you become eligible for retirement benefits.

You must be working for a SERS employer when you purchase service. In other words, you can't purchase service after you leave state employment, or while you are on leave without pay.

When you purchase service, you pay the contributions that you would have made toward your SERS pension for that service. If you are interested in purchasing service, call your retirement counselor at 1.800.633.5461.

There are a number of specific situations that require special consideration and, in every instance, the cost of any service purchase must be calculated by SERS, and there are tax implications.

Payment Options:

- **Lump Sum** - This option allows you to purchase your prior service by making one lump sum payment due within 30 days of the invoice date.
- **Partial Lump Sum, with Payroll Deductions** - This option allows you to purchase your prior service by making a lump sum payment of at least 1/3 of the total purchase amount and paying the remaining balance by payroll deductions. Statutory interest at the rate of 4% per year will be included in your payroll deductions. Early payment of the balance will not reduce the total cost.
- **Installment Payments** - This option allows you to purchase your prior service by payroll deductions in full year increments over one – six years. Statutory interest at the rate of 4% per year will be included in your total. Early payment will not reduce the total cost.
- **Debt to Your Total Pension Benefit** - This option allows you to pay for the purchase through an actuarial reduction of your total pension benefit. When you retire, we calculate the initial value of your benefit over your expected lifetime. The cost of your service purchase is then deducted from that initial value.

How do I purchase service?

You must be working for a SERS employer when you purchase service. In other words, you can't purchase service after you leave state employment, or while you are on leave without pay. Contact a retirement counselor and fill out a *Purchase of Service Election Form*. This can be found in your New Member packet.

As part of the process, you will receive an invoice for the cost. At that point, you have 30 days to notify us in writing if you intend to purchase the service and the payment option you select, or to notify us that you no longer wish to purchase the service.

If you do not respond to the invoice within 30 days, we assume that you have chosen the payment by debt option. We will automatically add the purchased service to your member record and establish an actuarial reduction of your pension benefit. At this point, your service purchase is final and binding and can't be canceled.

Tax Considerations

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

NOTE: The State Employees' Retirement System (SERS) provides this document for educational and informational purposes. Information in this document is general in nature, does not cover all factual circumstances and is not a complete statement of the law or administrative rules. The statements in this document are not binding; and in any conflict between the statements in this document and applicable law or administrative rules, the law and administrative rules will prevail. Members' retirement-related information may be subject to disclosure under Pennsylvania's Right-to-Know Law.

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