



Serving those who serve South Carolina

Covered Employer Training Program

The Service Purchase Process
FY 2016

Purchasing service



- Active, contributing members may establish additional service credit for various types of previous employment and leaves of absence, and up to five years of non-qualified service.
- Members should contact insurance provider to see if purchasing service affects insurance eligibility.

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Purchasing service



- Members cannot purchase service to meet the age requirement for retirement eligibility.
 - For example, a member who is age 57 and has more than five years of earned service cannot purchase three years of service to meet retirement eligibility age (60 years).

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Service purchase types – Qualified service



- Public service
 - paid service as an employee of the government of the United States, a state, or a political subdivision of the United States
- Educational service
 - any period of paid classroom teaching consisting of grades k-12 in a public or private school
- State Optional Retirement Program (State ORP)
 - paid service during which time the member participated in State ORP (within South Carolina only)

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Service purchase types – Qualified service



- Military service
 - classified as service performed in the United States Army, Navy, Marine Corps, Air Force, Coast Guard, Select Reserves, and Army National Guard or Air National Guard
 - may purchase up to six years maximum
- Employer approved leave of absence
 - may purchase up to two years of service for each leave of absence
 - member must have returned to covered employment within four years

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Service purchase types – Qualified service



- Cost to purchase qualified service:
 - actuarially neutral payment based in part on member's age, credited service, current and career highest salaries, average final compensation, and amount of service being purchased
 - not less than 16 percent of a member's current or career highest fiscal year salary, whichever is greater, for each year purchased

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Service purchase types



- Previously withdrawn service:
 - A member who previously terminated covered employment and took a refund of his account balance has the option of repaying the withdrawn account balance plus interest to the date the request is received to reinstate his previous service credit.
 - A reinstated withdrawal can affect whether a member is enrolled in SCRS/PORS Class Two vs. Class Three.

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Service purchase types



- Workers' compensation:
 - Any period(s) of leave without pay due to an on-the-job injury during which workers' compensation benefits were received.
 - Cost is based on contributions based on earnable compensation at the time of injury plus interest.
 - May arrange in advance with employer to continue remitting contributions through a supplemental report while receiving workers' compensation benefits.

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Service purchase types



- For previously withdrawn earned service, State ORP service, military leaves of absence, and periods of workers' compensation:
 - service considered earned service and applied toward retirement eligibility once the purchase is complete
 - earnings associated with earned service may be included when determining the member's average final compensation

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Service purchase types



- Transfer from SCRS to PORS:
 - An active member of PORS may pay to transfer periods of non-concurrent SCRS service to their PORS account
 - Cost to transfer from SCRS to PORS is based on 5 percent of current earnable compensation for each year of non-concurrent service being transferred

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Service purchase types



- Non-qualified service:
 - Members with five years of earned service may purchase a maximum of five years of non-qualified service.
 - Actuarially neutral payment based in part on member's age, credited service, current and career highest salaries, average final compensation, and amount of service being purchased
 - Not less than 35 percent of a member's current or career highest fiscal year salary, whichever is greater, for each year purchased

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Determining credit for purchased service



- Indexed Service Credit Threshold ([see chart](#))
 - Used to determine service credit for public, educational, and State ORP service
 - May be applied to periods of previously purchased part-time credit or previously earned part-time credit prior to July 1, 1996

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How to get a service purchase invoice



- Submit a service purchase request via Member Access, PEBA's secure online system, or complete a Form 2101 and mail or fax to PEBA
- All required information must be received within 90 days or request expires

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How to get a service purchase invoice



- If the payment invoice expires all service verification remains on file should the member decide to purchase the service at a later date.
- Once a payment invoice expires, a new salary verification form is required for any subsequent service purchase request.

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Purchasing service to meet retirement eligibility



- If member is purchasing service to be eligible to retire by a certain date, write the following in the comments line of *Request for Service Purchase Cost* (Form 2101):

Member wants to purchase enough service to have ____ years of service as of __/__/__ date of retirement.

- Also indicate in the comments if member will be using any unused sick leave to reach a specific amount of service credit (only for Class Two SCRS and PORS)

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Retirement eligibility requirements - Class Two



South Carolina Retirement System (SCRS)*:

- Normal retirement (unreduced benefits)
 - Age 65; or
 - 28 years of service credit
- Early retirement (reduced benefits)
 - Age 60; or
 - Age 55 or older with 25 years or more of service credit

Police Officers Retirement System (PORS)*:

- 25 years of service credit regardless of age, or
- Age 55 or older

**Must have at least five years of earned service.*

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Retirement eligibility requirements - Class Three



South Carolina Retirement System (SCRS):

- Normal retirement (unreduced benefits)
 - Age 65 with at least eight years of earned service, or
 - Rule of 90: age and years of service must add up to 90
 - Example: 56-year-old member who has at least 34 years of service, would be eligible for normal retirement (56 + 34 = 90)
 - Must have at least eight years of earned service
- Early retirement (reduced benefits)
 - Age 60
 - 5 percent reduction for each year member retires before age 65
 - Must have at least eight years of earned service

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Retirement eligibility requirements - Class Three



Police Officers Retirement System (PORS):

- Must have at least eight years of earned service
- 27 years of service credit regardless of age, or
- Age 55 or older

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Verification of previous service



- If member is unable to verify public, educational, or State ORP service because records are no longer available, other types of verification can be used:
 - Non-certified detailed earnings statement from Social Security ([SSA Form 7050](#))
 - W-2 forms
- Affidavits are not acceptable

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Verification of previous service



- To verify military service use *Verification of Military Service* ([Form 180](#)).
- Instructions on back of *Request for Service Purchase Cost* ([Form 2101](#)) list specific documents needed for active military/National Guard/Select Reserves
- For information and instructions on obtaining verification of federal service, see *Service Purchase Federal Address List* ([Form 2391](#))

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Service purchase invoice



- Cost is generally valid for six months
- Expiration date is provided
- Payment accepted on or before the expiration date as long as the member is actively employed
- To receive an installment service purchase payment estimate, member must complete bottom of invoice and return it to PEBA

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Acceptable methods of payment



- Lump sum:
 - Deferred: rollover(s) from S.C. Deferred Compensation Program, or other qualified retirement plans
 - Non-deferred: personal check or money order
- Installment Service Purchase Program (deferred or non-deferred)
- *Service Purchase Payment Options Sheet (Form 2390)* enclosed in envelope with invoice

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Installment Service Purchase Program



- Purchase service by making payments through payroll deduction
- Choice of having payments withheld on deferred (before tax) or non-deferred (after tax) basis
- Interest rate for installment service purchases created during FY16 is 5.25 percent
- Maximum installment payment period is two years for each year of service purchased
- *Installment Service Purchase Monthly Payments* chart has monthly payment examples

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Installment Service Purchase Program



- Tax-deferred installment payments:
 - Pay off balance only by terminating employment or at retirement
 - Additional principal payments not allowed
 - A member may elect a permanent increase of his payments for the remaining term
 - Pre-tax agreements are irrevocable and cannot be stopped by member unless he retires, terminates, or provides evidence of unforeseen hardship as defined by Internal Revenue Code section 457
 - If a hardship occurs, the member must detail the hardship circumstances and submit in writing to PEBA for review

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Installment Service Purchase Program



- Non-deferred installment payments:
 - Less restrictive than deferred plan
 - Additional principal payments are accepted
 - Can pay off installment at any time
 - Can terminate installment at any time

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Reporting installment payments



- Employers who use the South Carolina Enterprise Information System (SCEIS):
 - PEBA's Service Accounting Department submits an authorization to the Comptroller General's office to initiate and terminate the payroll deduction.

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Reporting installment payments



- Non-SCEIS employers are responsible for withholding the payroll deduction.
- Installment payments are not included with your monthly or quarterly contribution procedures.
- You must submit installment purchase payments separately.

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Reporting installment payments



- Non-SCEIS employers must have on file a completed resolution (Form 3228) with PEBA, which provides additional details on procedures and restrictions.
- Complete *Installment Service Purchase Remittance* (Form 3229) using EES or by accessing the form on PEBA's website
- Remit Form 3229 and payments no later than five calendar days following each pay day; by check in the brown envelopes provided or by electronic funds

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When installment purchase nears maturity



- PEBA mails notification of the final installment payment due date to the employer.
- If an employer deducts a payment from a member's paycheck after an installment purchase has been paid:
 - PEBA will refund the member directly for non-deferred installments.
 - For deferred installments, the refund is paid to the employer.

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Summary quiz



- How often do you remit service purchase payments to PEBA?

- Can a member purchase service to meet retirement eligibility?

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Disclaimer



This presentation does not constitute a comprehensive or binding representation regarding the employee benefits offered by the South Carolina Public Employee Benefit Authority (PEBA). The terms and conditions of the retirement and insurance benefit plans offered by PEBA are set out in the applicable statutes and plan documents and are subject to change. Please contact PEBA for the most current information. The language used in this presentation does not create any contractual rights or entitlements for any person.

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Questions



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