

peba academy  PEBA
SC Retirement Systems
and State Health Plan

Retirement Benefits Training

Service purchase
Fiscal year 2021

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Topics

- Service purchase rules.
- Service purchase types.
- Service purchase process.
- Service purchase payments.
 - Reporting and remitting installment payments.

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Service purchase rules

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Purchasing service credit

- Active members may be eligible to establish additional service credit by:
 - Purchasing qualified service;
 - Restoring previously withdrawn service or transferring eligible SCRS service to PORS service; and
 - Buying up to five years of non-qualified service.
- May establish each type of service credit once within a fiscal year.

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Service purchase requirements

- Must be active, contributing member.
- Must have five years earned service to purchase non-qualified time.
- All service purchases must be completed before leaving employment.
 - If member terminates employment within one year of retirement eligibility, the member has an additional five business days after termination to purchase any service the member is otherwise eligible to purchase.

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Service purchase requirements

- No duplication of benefits in another defined benefit plan, except for military plan.
- No overlapping service credit.

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Purchased service counting toward earned service

- Purchased service is considered earned service when it is from:
 - Withdrawn earned service;
 - State ORP service;
 - Military leave of absence service;
 - Workers' compensation; or
 - Transfer from SCRS to PORS.
- Earnings associated with earned service may be included when determining average final compensation.
- Other types of purchased service (e.g., public, educational, military or non-qualified service) are not considered earned service.

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Purchased service and retirement eligibility

- Counts toward total retirement service credit requirements.
- Does not count toward earned service requirements except as identified on the prior slide.
- Does not count toward retirement age requirements.
- Some types of purchased service cannot be used for retiree health insurance eligibility. Member should contact PEBA for more information.

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Calculating purchased service credit

- Indexed Service Credit Threshold chart used for:
 - Public service;
 - Educational service; and
 - State ORP service.
- Formula may also be applied to:
 - Previously purchased part-time credit; or
 - Previously earned part-time credit from before July 1, 1996.

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Types of service purchase

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Public service

- Public service for paid service as employee of:
 - U.S. government;
 - Any state government; or
 - Any political subdivision in the U.S.
- Actuarially neutral payment based partially on:
 - Member's age;
 - Credited service;
 - Current or career-highest salaries, or average final compensation; and
 - Amount of service purchased.
- Each year purchased cannot cost less than 16 percent of career-highest salary.

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Educational service (K-12)

- Educational service for any period of paid classroom teaching:
 - In grades K-12; and
 - At either a public or private school.
- Actuarially neutral payment based partially on:
 - Member's age;
 - Credited service;
 - Current or career-highest salaries, or average final compensation; and
 - Amount of service purchased.
- Each year purchased cannot cost less than 16 percent of career-highest salary.

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Military service

- Service performed in U.S. Army, U.S. Navy, U.S. Marine Corps, U.S. Coast Guard, U.S. Select Reserves, U.S. Army National Guard or Air National Guard.
- Can purchase maximum of six years of military service.
- Cannot purchase if member has dishonorable discharge.
- Actuarially neutral payment based partially on:
 - Member's age;
 - Credited service;
 - Current or career-highest salaries, or average final compensation; and
 - Amount of service purchased.
- Each year purchased cannot cost less than 16 percent of career-highest salary.

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Leave of absence

- Employer-approved leaves of absence:
 - Up to two years for each leave period.
 - Must have returned to covered employment within four years.
- Actuarially neutral payment based partially on:
 - Member's age;
 - Credited service;
 - Current or career-highest salaries, or average final compensation; and
 - Amount of service purchased.
- Each year purchased cannot cost less than 16 percent of career-highest salary.

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Workers' compensation

- Workers' compensation service purchase available for periods of leave without pay:
 - Caused by on-the-job injury; and
 - During which workers' compensation benefits were received.
- Cost based on:
 - Contributions plus interest; and
 - Earnable compensation at time of injury.
- May arrange in advance with employer to continue making contributions through a supplemental report.
- Supplemental service reports must be made during the time in which benefits are received.

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Previously withdrawn service

- Previously withdrawn service applies to members who ended covered employment and took account balance refund.
- Purchase cost includes:
 - Amount of refund; and
 - Interest on refund amount from time of refund to date PEBA receives purchase request.
- Purchase may affect whether member is Class Two or Class Three.

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Non-qualified service

- Member must have five years earned service.
- Can purchase up to five years non-qualified service.
- Actuarially neutral for system, based in part on:
 - Member's age;
 - Credited service;
 - Current or career-highest salaries, or average final compensation; and
 - Amount of service purchased.
- Each year purchased cannot cost less than 35 percent of career-highest salary.

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State ORP service

- Paid service while participating in State Optional Retirement Program (State ORP).
- Actuarially neutral payment based partially on:
 - Member's age;
 - Credited service;
 - Current or career-highest salaries, or average final compensation; and
 - Amount of service purchased.
- Each year purchased cannot cost less than 16 percent of career-highest salary.

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Transfer to PORS service

- Member must have:
 - Active PORS account; and
 - Non-concurrent SCRS service, meaning the SCRS service is for a period of time not already covered by PORS service.
- Cost based on 5 percent of current earnable compensation for each year transferred.

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Service purchase process

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Requesting a service purchase invoice

- Members can submit a request online through Member Access.
 - Members may also complete and submit Request for Service Purchase Cost (Form 2101) or contact PEBA Customer Contact Center.
- Additional forms/documents may be required for certain service types.
 - Indicated in Member Access or on Form 2101.
- All required information must be received within 90 days of submitting request or request expires.

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Salary verification

- Complete and submit the Service Purchase Salary Verification (Form 2209).
- Include any additional earnings subject to retirement withholdings, such as:
 - Employer-mandated overtime pay;
 - Summer school;
 - Additional course load;
 - Differentials;
 - Stipends; and
 - Coaching supplements.

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Service purchase invoices

- Member receives a Member Service Payment Invoice within 30 days of PEBA receiving all information.
 - Payment invoices valid for six months.
 - Expiration date provided on invoice.
- Payment accepted if received on or before the expiration date as long as member is actively employed.
- After expiration, all service verification remains on file for later service purchase.
 - If installment payment option not set prior to expiration date, service prorated if partial payment received.
 - Member cannot purchase remaining service or same type of service until next fiscal year.
- New service purchase requests require new salary verification from employer.

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Service purchase payments

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Acceptable payment methods

- Lump-sum: personal check or money order.
- Tax-deferred rollover(s) from:
 - S.C. Deferred Compensation Program; or
 - Other qualified retirement plans, like a 401(k), 401(a), 403(b), 457 or IRA.
- Installment Service Purchase Program (pretax or post-tax).

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Installment Service Purchase Program

- Member may request installment service purchase cost estimate.
- May make payments through payroll deduction, either pretax or post-tax.
- Fiscal year 2021 interest rate: 5.25 percent.
- Minimum installment period: six months.
- Maximum installment period: twice the length of the service being purchased.

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Pretax installment payments

- Pretax agreements are irrevocable unless member:
 - Retires;
 - Terminates employment; or
 - Provides evidence of unforeseeable emergency as defined by Internal Revenue Code Section 457.
- Additional principal payments not allowed.
- Member cannot increase or decrease the payment amount for remaining term.
- If a hardship occurs, member must submit written explanation of hardship circumstances to PEBA for review.

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Post-tax installment payments

- Less restrictive than pretax plan.
- Additional principal payments accepted.
- Member can increase payment amount.
- Member can pay off at any time.
- Member can terminate installment at any time.

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Reporting installment payments

- For employers who report payroll through Comptroller General's payroll system, SCEIS:
 - Required to offer pretax installments.
 - Complete Employer Resolution on Tax Deferred Payroll Deductions for Installment Service Purchase (Form 3228).
 - PEBA sends file to SCEIS to initiate and terminate payroll deductions.

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Reporting installment payments

- For all other employers:
 - Responsible for withholding payroll deductions.
 - Complete Employer Resolution on Tax Deferred Payroll Deductions for Installment Service Purchase (Form 3228) to participate in pretax installments.
 - Do not include installment payments with monthly or quarterly payroll deposits.

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Reporting installment payments¹

- Create Installment Service Purchase Remittance (Form 3229) via Installment Accounting option in EES.
 - Enter actual payday and select Next.
 - Review information, make any necessary updates and select Calculate.
 - Select Create PDF.
 - Or manually complete *Installment Service Purchase Remittance* (Form 3229).
- Form and payment due to PEBA within five calendar days after each payday.
- Send payments by:
 - Wire/ACH transfer;
 - ACH debit; or
 - Submitting check in PEBA-provided tan envelope.
- Send remittance form via:
 - Email to serviceaccounting@peba.sc.gov for wire/ACH transfer and ACH debit.
 - Mail if paying by check.

¹ Not applicable to employers who report their payrolls through the Comptroller General's payroll system.

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When installment purchase nears maturity

- Highlighted in yellow on *Installment Service Purchase Remittance* in EES.
- Form 3313 sent to notify you of final installment payment and due date.
- Form 3315 sent to you and member after final payment received.
- Do not send additional payments after receiving Form 3315.

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Refunding excess installment payments

- If you deduct payment from member after installment purchase is paid in full:
 - PEBA refunds you for pretax installments.
 - PEBA refunds member for post-tax installments.

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