

Buying Creditable Service

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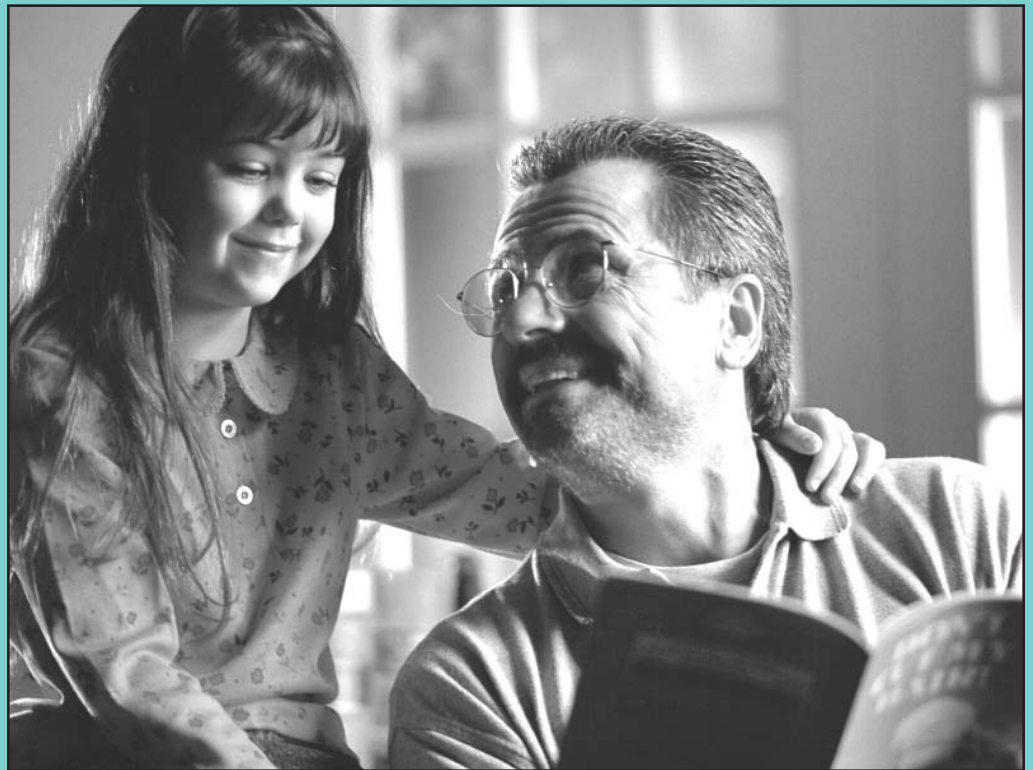




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This brochure describes the types of service you are able to buy, the benefits and restrictions on purchases, and how and when you can buy service.

Importance of Years of Service

When you retire from the Wisconsin Retirement System (WRS), we will calculate your monthly annuity two different ways to determine which will result in a higher benefit. The first calculation uses your creditable service in the WRS and the second is based on your WRS accumulated account balance.

Under Wisconsin Statutes, you may purchase certain types of service to increase your retirement benefit (or 40.63 disability, if eligible).

Forfeited Service

If you have taken a separation benefit (a lump sum withdrawal of your employee contributions), you forfeited the creditable service you earned before taking your separation benefit. If you meet certain conditions, you are eligible to “buy back” your forfeited service. The former State Teachers Retirement System, Milwaukee Teachers Retirement Fund and Wisconsin Retirement Fund were merged into the WRS on January 1, 1982. If you forfeited creditable service in any of

these retirement systems by withdrawing your contributions as a separation benefit, you may purchase your forfeited service regardless of your current employment category. The following conditions apply:

- The Department of Employee Trust Funds (ETF) must receive your application and payment to purchase service **before** you terminate WRS employment.
- You must have three complete continuous years of service under the WRS since your return to covered WRS employment. This means that you have been employed in a position covered under the WRS for three complete consecutive annual earnings periods without a termination in employment of more than 90 days, and with some WRS service credited in each annual earnings period. Your three years of continuous service do not have to be full-time.
- The number of years you buy cannot be greater than the number of years of service you have earned since you returned to covered WRS employment.
- You may buy part or all of the forfeited service that you are eligible to buy.
- If otherwise eligible, you may purchase forfeited service twice during a calendar year.

Qualifying Service

(APPLIES ONLY TO NON-TEACHING EMPLOYEES)

Until January 1, 1973, participants in the Wisconsin Retirement Fund were required to serve a qualifying period (normally the first six months of employment). During the qualifying period, an employee did not earn any creditable service and no retirement contributions were made. If you served a qualifying period, you can purchase creditable service for this period. If you are currently a teacher who previously served a qualifying period in non-teaching employment before becoming a teacher, you are eligible to purchase your qualifying service.

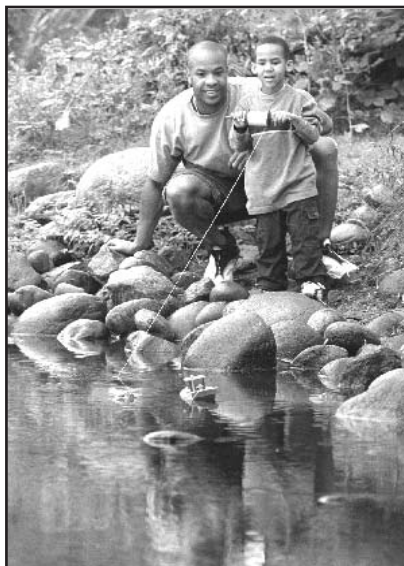
If you worked full-time and served a full six-month qualifying period, you are eligible to purchase the

entire six months. If you were a part-time employee, the qualifying service you are eligible to purchase is prorated based on your part-time status. If you took a separation benefit, **you must purchase all of the forfeited service you are eligible to buy before you can buy your qualifying service.**

Other Governmental Service

If you worked for a non-WRS public employer other than the military at the federal, state or local level, you may be eligible to purchase WRS creditable service for that employment. The following conditions apply:

- You must have three continuous years of service under the WRS as defined in the Forfeited Service section.
- The number of years you buy cannot be greater than the number of years of WRS creditable service you have earned at the time you apply.
- You can buy part or all of the Other Governmental Service you are eligible to buy at the time you apply, and you may make two purchases in a calendar year.
- You cannot purchase service that you are using to establish entitlement to any benefit paid by the federal, state or local government (other than Social Security,



disability benefits, or benefits paid for service in the National Guard).

- You must pay the full actuarial cost of the benefit increase that the service will provide.
- This purchased service is not counted toward the service requirements for WRS vesting, military service crediting, disability benefits, insurance eligibility after termination of employment, or how many years of forfeited WRS service you may be eligible to buy.

Other Uncredited Service

- Before July 1, 1957, teachers in Wisconsin public schools who were less than 25 years old were called “junior teachers.” They could not become members of the State Teachers Retirement System (STRS) until after reaching age 25. Subsequent legislation granted creditable service for most junior teaching. However, employees who did not receive creditable service for junior teaching are eligible to purchase this service, providing that the teaching service can be documented.
- Employees who received a paid teacher improvement leave of absence from the Board of Regents of the Wisconsin state colleges between January 1, 1964, and August 31, 1967, may purchase up to one year of creditable service for the period of the leave.
- You may be eligible to purchase additional creditable service if you were employed after age 62 in an executive retirement plan position prior to May 3, 1988. Prior to that date, participants employed in executive retirement plan positions did not receive creditable service after age 62 for that employment.

What Purchasing Service Can Do for You

- Increase your creditable service. Higher creditable service can result in:
 - a higher retirement or disability benefit if your annuity is calculated as a formula benefit.
 - a higher special death benefit for beneficiaries if you die as an active employee.
 - eligibility for credit for active duty military service before January 1, 1974 that was not an interruption in your employment with a WRS employer. You can receive one year of military service credit for each five years of creditable service, up to a maximum of four years. Other Governmental Service is not included when determining your eligibility for this service credit. (NOTE: Military service that interrupted your employment with a WRS employer may be credited under other legal provisions.)
 - a decrease in the age reduction applied to your annuity if you are taking early retirement.
 - eligibility to continue ETF-administered group insurance plans for your lifetime after you terminate employment. If you have 20 years of service, you can continue your group life insurance if you terminate employment before minimum retirement age (55, or age 50 for protectives). You can continue your group health insurance



without taking an immediate annuity if you terminate after minimum retirement age and have 20 years of service. Other Governmental Service is not included when determining your eligibility to continue the group insurance plans.

- putting you at your maximum benefit allowed by law. The maximum formula benefit is limited to 70% of your final average earnings. If you are a protective employee covered by Social Security, your maximum benefit is limited to 65% of your final average earnings. If you are a protective employee not covered by Social Security, your maximum benefit is 85% of your final average earnings.
- Increase your WRS account balance. Any amount you contribute to purchase service is deposited in your employee-required account. Your employee-required account:
 - increases your retirement or disability benefit if your annuity is calculated as a money purchase benefit.
 - is refunded if you take a separation benefit.
 - is paid to your beneficiaries if you die before beginning a WRS benefit.

When You Can Buy Service

You are eligible to purchase service while you are actively employed in a position covered under the WRS (or on a leave of absence from a covered position) and you meet the conditions to buy the type(s) of service. ETF must receive your application and payment to purchase service no later than the date you terminate WRS covered employment.

You must purchase all of your forfeited service that you are eligible to buy before you are eligible to buy qualifying service. This restriction does not apply to other types of service purchases.

Cost of Buying Service

FORFEITED SERVICE

The cost is based on your three highest annual earnings for fiscal/calendar years completed at the time you apply. (For teachers, judges, and educational support personnel, annual earnings are based on fiscal years that begin on July 1

and end the following June 30.) The cost will increase proportionately as your annual earnings increase.

Example: If your average annual salary is \$25,000, purchasing three years of service at the general employment category contribution rate of 5% would cost approximately \$3,750.

$$\$25,000 \times 5\% \times 3.00 \text{ years} = \$3,750$$

The contribution rate used is the rate in effect for each forfeited service employment category when the estimate is prepared. The contribution rates for protective and elected or executive official categories may change each calendar year so the cost to buy forfeited service in any of these categories can change even if the earnings do not change.

You may also complete a calculation online by using ETF's [Forfeited Service Cost Calculator](#) at etf.wi.gov. Simply enter your personal data and the amount of forfeited service you wish to purchase. The calculator will compute and display the estimated cost to purchase your forfeited service and an estimate of the monthly benefit increase.

You may buy part or all of the forfeited service that you are eligible to buy. See the worksheet, *Calculating The Cost to Buy Part of Your Forfeited Service*, at the end of this booklet to calculate the cost of buying any portion of your service.

OTHER GOVERNMENTAL SERVICE

The cost to purchase Other Governmental Service is based on the projected amount needed to fund the increase in your benefit that the service purchase will provide. The cost will



usually be much higher than the cost of the same number of years of forfeited service because no part of the cost of the benefit increase is funded from employer contributions.

For more detailed information, a brochure entitled *Buying Other Governmental Service* (ET-2207) is available.

QUALIFYING AND UNCREDITED TEACHING SERVICE

The cost of buying qualifying service and uncredited teaching service is based on an employee contribution rate of 5% and your single highest annual earnings when you apply.

Example: If your highest annual earnings is \$25,000, the cost of six months (.5 year) of qualifying service would be calculated as follows:

$$\$25,000 \times 5\% \times .5 \text{ year} = \$625$$

Rate of Return for Purchasing Service

The rate of return is based on an initial amount of your annuity in the "For Annuitant's Life Only" annuity option, with no age reductions for early retirement. If you retire before your normal retirement age and your service purchase decreases your age reduction, your rate of return could be higher than the rate shown. If your annuity is higher under the money purchase calculation than under the formula calculation, your rate of return would probably be lower.

The rate of return on a purchase of Other Governmental Service varies according to individual circumstances. The cost is calculated based on actuarial probabilities, and the intent is for your investment to be fully recovered over your anticipated lifetime.

If you are considering buying the service many years before your anticipated retirement date, or if you retire before reaching your normal retirement age, you can calculate approximately how long it will take to recover your investment by dividing the total service purchase cost by the annual benefit

increase. Your annual rate of return would equal your annual estimated benefit increase divided by the cost.

You earn the highest rate of return when the purchased service would decrease your age reduction in addition to increasing the number of years of creditable service used in your formula annuity calculation.

The payback period may help you decide how long it would take to recover your investment. If your benefit increase would give you a 20% rate of return, you would recover your investment within five years after you retire. Unless you select an annuity for your life only, you and your beneficiaries will normally recover your investment. If you are concerned about the payback period, you may want to consider what you could earn by investing the money elsewhere. In this example, if you could invest the money elsewhere at 10%, the payback period would then be ten years.

Deciding What to Do

Factors to consider are:

- The cost.
- Loss of financial flexibility. When you make a payment to the WRS, that money is not available to you until you terminate employment, even in emergencies. Once you terminate WRS employment, you may be limited to a monthly annuity rather than a lump sum benefit.
- The rate of return your monthly benefit increase represents. Your service purchase application will provide an estimated amount that the service purchase will increase your retirement or disability annuity (except for other governmental service.)
- Your present age and whether you intend to continue employment in a position covered under the WRS.
- If you purchase service and your WRS account is later divided by a divorce (a Qualified Domestic Relations Order/QDRO),

we also divide the purchased service. The Alternate Payee (your ex-spouse) gets a percentage of the purchased service as part of your WRS creditable service. If you purchase service after a QDRO, we do not split the purchased service and the total remains in your account.

You can estimate the cost to purchase most service (except for Other Governmental Service) based on information in this brochure. You may refer to our *Calculating Your Retirement Benefits* brochure (ET-4107), or go to our online Internet benefit calculators at etf.wi.gov, to estimate the increase in your monthly retirement benefit. This monthly amount multiplied by 12 would be your annual benefit increase.

Upon request, the Department of Employee Trust Funds (ETF) will provide estimates of the cost to buy forfeited service, qualifying service, uncredited executive or teaching service, and Other Governmental Service.

A prepared estimate will not include your earnings for the current (incomplete) fiscal or calendar year. It includes a due date that is the last day of your current earnings period (or our next business day when that is a weekend or holiday); the cost estimate is valid until this date. If your earnings are reported by calendar year, the due date is our first business day in January since our office is closed on December 31 each year. If your application is received after the due date, and your last completed calendar or fiscal year earnings is higher than any used in the estimate and/or the contribution rate changed, the cost will change.

How to Pay for Service

You can pay for your service by submitting payment with your application, by transferring funds from your WRS additional account(s), through a plan-to-plan transfer of pre-tax monies from your qualified non-WRS retirement plan(s), or a combination of all three.

An application to purchase service is irrevocable once the Department of Employee Trust Funds (ETF) receives payment.

The cost of forfeited and all other uncredited service (other than qualifying service and Other Governmental Service) must be paid by you.

The cost of qualifying service can be paid by you **or** your employer. If you are a state employee, your employer can **only** pay for your qualifying service pursuant to a collective bargaining agreement.

Employers are not prohibited from paying the cost of Other Governmental Service, but if it is paid by the employer, this cost is considered taxable income to you in the year it is paid. You may use your WRS additional contributions to pay for creditable service purchases (see *Additional Contributions* brochure, ET-2123).

Your WRS additional contributions are subject to the annual limits only in the year ETF receives them. They are not tested against the contribution limits again when you use them to purchase creditable service.

If you have pre-tax monies in a qualified non-WRS retirement plan, you may be eligible to directly transfer those funds to buy WRS service. ETF can accept plan-to-plan transfers of pre-tax funds from retirement plans qualified under sections 401(a), 401(k), 403(b), and 457(b) of the Internal Revenue Code. Other plans, such as Individual Retirement Accounts, are not eligible for direct plan-to-plan transfers. The outside plan(s) must agree to do the transfer. There is no immediate tax liability on the monies transferred from another qualified retirement plan(s) to buy WRS creditable service.

If you use the plan-to-plan transfer option, you must pay at least 10% of the total cost of the service at the time you apply. You may pay this 10% amount with a personal check or from your WRS additional contributions.

Investment of Service Purchase Payments

Payments for purchased service will be invested in the WRS trust funds and will begin to earn interest for the calendar year after receipt by

ETF. A service purchase payment must be on deposit in your account a full calendar year before interest is applied. There is no prorated interest in the calendar year that a payment is received.

If you are not participating in the variable trust when your application is received, all of your service purchase payment(s) will be deposited in the core trust. If you are a variable trust participant when your application is received, half of the service purchase payment(s) will be deposited in the variable fund and half in the core fund.

If you are purchasing service more than a full calendar year before retirement and want to earn calendar year interest, payments must be received by our last working day before December 31 to earn interest for the following calendar year. This includes the plan-to-plan transfer funds so allow ample time for those funds to be received by ETF before December 31.

When corresponding with this Department, be sure to include the following information which will help us identify your account:

- Your name
- Your Social Security number
- Your date of birth

The Department of Employee Trust Funds (ETF) has made every effort to ensure that this brochure is current and accurate. However, changes in the law or processes since the last revision to this brochure may mean that some details are not current. Please contact ETF if you have any questions about a particular topic in this brochure.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call toll free at 1-877-533-5020 or (608) 266-3285 (local Madison). We will try to find another way to get the information to you in a usable form.

CALCULATING THE COST TO BUY PART OF YOUR FORFEITED SERVICE*

You can buy part or all of the forfeited service that you are eligible to buy. If you know how many years you are eligible to buy and the cost to buy all of that forfeited service, you can calculate the cost to buy a portion of that service using the worksheet below. You can use this worksheet either to calculate the cost of a specific number of years, or if you have a certain amount of money you wish to use to buy forfeited service, you can calculate how much service that amount of money will buy. *Note: If you have forfeited service in more than one employment category, you will need to do a separate calculation for each category.*

Sample Calculations

The sample calculations in the right column below assume that you are eligible to buy a total of 12 years of forfeited service, and that the total cost of those years would be \$26,000. The top sample calculation assumes that you wish to buy 4.50 of your 12 years of forfeited service, and shows how to determine the cost to buy 4.50 years. The bottom calculation assumes that you have \$8,450 available to buy forfeited service, and shows how to determine how many years of forfeited service you can buy with the \$8,450.

Calculating the Cost to Buy a Certain Number of Years of Forfeited Service

	Enter Numbers for Your Calculation	Sample Calculation
A Enter the number of years you wish to buy	_____	4.50
B Divide by the total number of years you are eligible to buy	÷ _____	÷12.00
C Equals the decimal fraction of total years that you wish to buy	= _____	= .375
D Enter total cost to buy all eligible years of forfeited service	\$ _____	\$26,000.00
E Multiply D times the decimal fraction from line C	X _____	x .375
F Equals the total cost to buy the years of forfeited service entered in line A	= \$ _____	\$9,750.00

Calculating How Much Service a Certain Amount of Money Will Buy

	Enter Numbers for Your Calculation	Sample Calculation
A Enter the amount you wish to pay for part of the service	\$ _____	\$8,450.50
B Divide by the cost of the full amount of service you can buy	÷\$ _____	÷\$26,000.00
C Equals the decimal fraction of the total cost that you wish to spend	= _____	= .325
D Enter the total number of years that you are eligible to buy	_____	\$12.00
E Multiply D times the decimal fraction from line C	X _____	x .325
F Equals the years of service you can buy with the dollar amount entered in line A	= _____	= 3.90

*Note: You can use this method to calculate the cost to buy a portion of other types of creditable service **except for Other Governmental Service (OGS)**. This method of prorating the cost will not produce the correct results for OGS. You may contact ETF for the estimated cost of buying part of your OGS.

For Additional Information

Contacting the Department of Employee Trust Funds (ETF)

Self-Service Toll Free Telephone Services

Available 24 hours a day, seven days a week. You must have a touch-tone telephone to use these systems.

SELF-SERVICE LINE: Call 1-877-383-1888 or (608) 266-2323 (local Madison) to request forms or brochures. Wisconsin Retirement System annuitants may also change their home mailing address or tax withholding election through this self-service line.

TELEPHONE MESSAGE CENTER: Call 1-800-991-5540 or (608) 264-6633 (local Madison) to hear detailed recorded messages covering a variety of Wisconsin Retirement System topics.

Note: *You will not be able to talk to a "live" person using these systems. To speak to a benefits specialist, call the telephone numbers listed below.*

Visit our Internet Site

Access the Internet site at: etf.wi.gov. A tremendous amount of information is online regarding the Wisconsin Retirement System and other benefit programs. You may e-mail ETF through this site.

Call During Office Hours

Office Hours: 7:45 am to 4:30 pm, Monday through Friday
(except holidays)

Telephone: 1-877-533-5020 (toll free)
(608) 266-3285 (local Madison)
Wisconsin Relay Service (for hearing & speech impaired)
7-1-1 or
1-800-947-3529 (English)
1-800-833-7813 (Spanish)

Write Us

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

Visit Us

Appointments: 1-877-533-5020 ext. 65717 (toll free)
(608) 266-5717 (local Madison)

Madison: **An appointment is recommended**
801 West Badger Road

Waukesha: **An appointment is required**
141 N.W. Barstow Street, Rm. 411

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