

Reinstatements, Purchases and Service Transfers

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Reinstatements, Purchases and Service Transfers

All members are eligible to purchase some type of service with PSRS before PSRS retirement. The potential advantages of reinstating or purchasing service are:

- Achieving a higher benefit
- Reaching retirement eligibility sooner

Reinstating Forfeited Service

If you have previous PSRS service you forfeited by taking a refund of your contributions and interest, you can buy back, or reinstate, all or any portion of the service. In most cases, you will receive the reinstatement cost of any eligible service when you establish your new PSRS membership.

Typically, a reinstatement is less expensive than a service purchase. Your cost is based on the amount refunded plus interest from the date of the refund until paid in full.

If you believe you are eligible to reinstate forfeited service and you have not received information from us, please contact us. If eligible, we will provide you information regarding the number of years you are eligible to reinstate and a cost estimate.

Rules for reinstating service:

- You may reinstate as much forfeited service as you have, in increments as small as one, one hundred thousandth (0.00001) of a year.
- Payment for service to be used to determine retirement eligibility and in the calculation of your benefit must be made before retirement.
- Interest accrues monthly on the unpaid balance on the first of each month starting from the date of the refund until paid in full.
- If you do not complete payment before retirement, refund, death or absence from covered employment if not vested, proportional service is granted based on payments you make.
- Reinstated service counts toward vesting your PSRS membership.

Purchasing Service

In addition to reinstating previously forfeited PSRS service, there are other types of service you may be eligible to purchase. If you were on military, sick or maternity leave, or worked elsewhere, you may be eligible to purchase service for that time. In limited cases, members may be able to transfer or recognize service earned with other Missouri public retirement systems.

Each type of service purchase has its own eligibility requirements. See details beginning on page 29. If you need more detailed information, please contact us.

Purchase Applications

Applications for most types of service purchases are available online by logging in to Web Member Services at www.psr-peers.org. Because of complex eligibility requirements, applications for a few types of service purchases and service transfers are not available online. You can request a copy of any purchase application by contacting PSRS.

Types of Service Purchases

Service purchases fall into three major categories:

- Purchases based on a leave from PSRS-covered employment – you and your employer pay contributions for the leave period
- Purchases calculated using the Basic Purchase Cost Calculation – your cost is calculated using a set formula
- Transferring and recognizing service with other Missouri public retirement systems – there is no cost to you for a transfer or recognition of service

Purchases Based on Leave from PSRS-Covered Employment

Three purchase provisions exist that may allow you to receive service based on a leave from PSRS-covered employment. Call PSRS or your employer for the estimated cost of these types of purchases.

You and your employer are required to pay contributions toward the total purchase cost.

1. Unpaid sick leave or workers’ compensation leave occurring in the current or previous two school years may be purchased by paying to your employer the contributions you would have made to PSRS during the full period of leave. Your employer will send both employer and employee contributions to PSRS so you receive full service for your leave period.

2. Active military service under the Uniformed Services Employment and Reemployment Rights Act (USERRA) includes service in the U.S. Armed Forces, National Guard and other service categories designated by the president in times of war or emergency. You must return to work for the same employer after your active duty.

USERRA-covered leave can be granted and purchased.

Granted USERRA-covered leave has no cost to you. It counts toward vesting your membership and eligibility for benefits, but is not used in the calculation of your benefits.

To receive granted USERRA leave, submit a copy of your DD214 to PSRS.

Purchased USERRA-covered leave is also used in the calculation of your benefits.

In order to be eligible to purchase service under USERRA, you must return to the same employer and apply within five years of your re-employment date. You can purchase up to five years of USERRA-covered service.

The cost to purchase USERRA service is calculated by multiplying the PSRS salary rate that would have been paid during the period of USERRA-covered service by the contribution rate in effect at the time of the service. You must pay the employee portion and your employer must pay the employer portion.

3. A leave of absence with a PSRS-covered employer occurring in the current school year may be purchased if you are granted leave (other than sick leave) and your employer pays you at least 50% of your regular salary. Contact your employer to arrange payment of the employee contributions you would have made to PSRS on your full salary. Your

employer will send both employer and employee contributions to PSRS so you receive full service for your leave of absence. This purchase must be completed during the school year the leave occurs.

Purchases Calculated Using the Basic Purchase Cost Calculation

Most PSRS service purchase costs are determined using the Basic Purchase Cost Calculation. You can estimate the cost for these purchases using the Purchase Calculator in Web Member Services. Log in at www.psrs-peers.org.

The Basic Purchase Cost Calculation multiplies the current total contribution rate (employee plus employer) by your highest annual salary on record to determine the cost for each year of service.

| Basic Purchase Cost Calculation | | | | |
|-----------------------------------------------|----------|---------------------------------|----------|------------------------------|
| Contribution Rate (Employee Plus Employer) | x | Highest Annual Salary on Record | = | Cost for One Year of Service |
| 29% | x | \$55,080 | = | \$15,973 |

The cost for purchasing service is recalculated every October 1, using the current contribution rate and your highest annual salary on record.

- The contribution rate is the total rate in effect for both the employee and employer combined as of the previous July 1.
- Your highest annual salary on record is typically, but not always, your salary from the last school year completed. Salary includes all earnings in a school year (July 1 – June 30) and the amount of the employer-paid health, dental and vision insurance premiums for you, the employee.

Rules for Purchasing Service Calculated Using the Basic Purchase Cost Calculation

These general rules apply to **most** purchases calculated with the Basic Purchase Cost Calculation.

- You need at least one year of earned service with PSRS to be eligible to apply for most service purchases.
- You are required to return to PSRS-covered employment after the employment, military service or leave being purchased.
- You can purchase most types of service in increments as small as one, one hundred thousandth (0.00001) of a year.
- The total of most types of service purchased (not including reinstatements) cannot exceed all earned service on record with PSRS at the termination of your membership. According to law, membership is terminated by retirement, refund, death, or when you are not vested and out of covered employment for five consecutive school years. Any payments made for service in excess of your earned service amount are refunded when your membership terminates.
- Purchased service counts toward vesting except supplemental service and service for Social Security-covered employment.
- You cannot have service with any other retirement system for employment, leave or service purchased with PSRS, except Social Security and military pensions.
- Payment for service to be used to determine retirement eligibility and in the calculation of your benefit must be made before retirement.
- The cost of any service for which you have applied, but not yet paid, as of September 30 of each year is recalculated each October 1 based upon your highest annual salary on record and the contribution rate as of July 1 of the current school year.
- For most types of service purchases, if you do not complete payment prior to retirement, refund, death or being out of covered employment for five consecutive school years before you are vested, proportional service is granted based on payments you make.

- Proportional service is not granted for partial payment on reciprocity purchases and some purchases of service for non-federal public employment.
- Applications to purchase service cannot be canceled or changed.
- Payments for purchases of service will not be refunded, unless the purchase will result in having more purchased than earned service at the time your membership ends.
- You cannot have more than one year of service for any school year.

Types of Purchases Calculated Using the Basic Purchase Cost Calculation

The Basic Purchase Cost Calculation is used to determine the cost of the following types of purchases:

- 1. Supplemental service** may be purchased if you are within five years of retirement eligibility. You may purchase up to five-tenths (0.5) of a year. This purchase does not require any prior employment, service or leave period, and does not count toward vesting your PSRS membership. IRS regulations may limit the amount of supplemental service you can purchase if you also purchase service for Social Security-covered employment (see below).
- 2. Social Security-covered employment** may be purchased if the employment was at least 20 hours per week on a regular basis while you were age 18 or older. You must be vested with PSRS to apply for this type of purchase. The IRS regulations categorize supplemental service purchases and some purchases of service for Social Security-covered employment as “non-qualified.” When purchasing non-qualified service, you are limited to a lifetime total purchase of five years paid for with after tax dollars. You can purchase additional years (more than five) if those additional years are paid for with qualified rollover or transfer funds.
- 3. Service forfeited from the Public Education Employee Retirement System of Missouri (PEERS)** may be purchased with a part of the cost offset by a transfer of the PEERS employer contributions to PSRS, not to exceed 50% of your purchase cost.

4. Maternity or paternity leave from a PSRS-covered employer may be purchased. You can purchase up to one year of service for each natural birth, legal adoption or terminated pregnancy.

If you have unpaid maternity or paternity leave during the current or previous two school years, it may be less expensive to get service for such time by paying contributions through your employer under the Unpaid Sick Leave purchase provision. See page 29 for more information.

5. Employment at non-PSRS-covered schools that was for at least 20 hours per week on a regular basis may be purchased. Employment can be with a public, private, secondary or post-secondary school.

6. Non-federal public employment in any location that was for at least 20 hours per week on a regular basis may be purchased.

You may also qualify to purchase service for non-federal public employment if you are vested with PSRS, your employment was in Missouri, for at least 17 hours per week on a regular basis, and the employment was not covered by a retirement plan.

7. Active duty U.S. military service may be purchased if you were discharged under honorable conditions. Also refer to page 29 for information on purchasing active military service covered by the Uniformed Services Employment and Reemployment Rights Act (USERRA).

8. Part-time certificated employment with a PSRS-covered employer that was for at least 17, but fewer than 20, hours per week on a regular basis occurring between August 28, 1991 and August 27, 2003 may be purchased, if you held a valid Missouri educator certificate.

9. Vo-tech work experience in the subject area of your vo-tech certification may be purchased if you are, or were, certified as a vo-tech teacher. You may purchase up to two years of this work experience.

10. Not-for-profit educational work experience of at least 20 hours per week on a regular basis at a not-for-profit corporation or agency may be purchased. The primary purpose of the work must have been the support of education or educational research. The work must have been performed while on leave from a PSRS-covered employer.

Reciprocity: Transferring or Purchasing Service from Another Missouri Public Retirement System

Reciprocity is a transfer or purchase of service from another Missouri public retirement system.

Reciprocity Transfer

You must be vested in both PSRS and another Missouri public retirement system to be eligible to transfer funds from the other system and receive actuarially equivalent service with PSRS. A cooperative transfer agreement between both systems is required. The systems that currently have signed transfer agreements with PSRS are:

- Kansas City Employees' Retirement System
- Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS)
- Missouri Local Government Employees Retirement System (LAGERS)
- Missouri State Employees' Retirement System (MOSERS), including the Administrative Law Judges Pension Plan and Judicial Plan
- The Public Education Employee Retirement System of Missouri (PEERS)
- The Public School Retirement System of the School District of Kansas City (KCPSRS)

If you transfer service from one of these systems to PSRS using reciprocity, you must forfeit all your service with the other system, and you may not receive service or benefits for the same period of employment from the other retirement system.

There is no cost to transfer the service. Since the service you receive in PSRS is actuarially determined and is not a year-for-year equivalent, not all of your service with the other public retirement system may transfer to PSRS. You can purchase any remaining service in excess of the amount of the transfer.

Reciprocity Purchase

You must be vested with PSRS in order to purchase service you forfeited with another Missouri public retirement system.

The cost of a reciprocity purchase is initially determined by the Basic Purchase Cost Calculation detailed on page 29. Reciprocity purchases accrue interest on the first of each month on the balance due beginning the first July 1 after the date the application is filed. Reciprocity purchase applications must be paid in full within two years of the application filing date. If payment is not completed within that time, all payments are refunded. Unlike some other purchases, proportional service is not granted for partial payment. You can, however, reapply for the purchase at a later date, with a recalculation of your cost.

Missouri Educational Recognition of Service

If you are vested with two or more Missouri educational retirement systems, you may be able to recognize the service at no cost to you. Recognizing your vested service may allow you to retire sooner or with a higher benefit factor used in your benefit calculation. However, your PSRS benefit is calculated using only your years of service and salaries on record with PSRS.

When you recognize vested service from another Missouri educational retirement system with your PSRS service, you do not forfeit your service with the other retirement system.

Participating Missouri educational retirement systems are:

- The Public School Retirement System of Missouri (PSRS)
- The Public Education Employee Retirement System of Missouri (PEERS)
- The Public School Retirement System of the School District of Kansas City (KCPSRS)
- The Public School Retirement System of the City of St. Louis (PSRSSTL)

Example

Recognition of Service

A 55-year-old PSRS member with 20 years of service with PSRS and 10 years of service with the Public School Retirement System of the City of St. Louis may be able to recognize the service she has with these two systems and be eligible to apply the full benefit factor (normal retirement) immediately when calculating her PSRS benefit. The benefit is calculated using the 20 years of service and her salaries earned with PSRS. Without recognizing the 10 years of St. Louis service, her benefit is actuarially age-reduced (under early retirement) because she is not yet age 60, does not have 30 years of service with PSRS, and does not meet the PSRS Rule of 80 criteria.

Is a Service Purchase the Best Decision?

A service purchase may or may not be right for you. This depends largely on your individual career statistics and personal circumstances. In almost all cases, a service purchase will increase your monthly benefit unless you have reached 100% of your Final Average Salary, which takes 40 years of service. In some cases it may allow you to retire earlier.

A service purchase can be quite expensive, and should be viewed as an investment in your retirement. When considering a service purchase, you should also consider other investment choices. The potential worth of a service purchase can vary greatly from member to member, depending, in part, on your personal circumstances, plans and goals. You should weigh the purchase cost against all potential benefits the additional service can provide. It may be wise to seek advice from a trusted financial advisor.

Consider the Timing

If the cost to purchase service is calculated using the Basic Purchase Cost Calculation, the cost is based in part on your highest annual salary on record. For that reason, it may make sense to purchase service earlier in your career, since the longer you work in PSRS-covered employment, the more likely your salary may increase. The higher your highest annual salary on record with PSRS, the more the service will cost.

How Long Will it Take to Recover the Cost?

There may be a variety of reasons for you to consider purchasing service. The most fundamental of all reasons is how long it will take you to recover your purchase cost after you retire. In the example shown below, it will take approximately 12 years of monthly benefits to recover the cost of the purchase.

Example

Purchase Cost Recovery Time

Step 1: Determine Increase in Monthly Benefit Due to Purchase of One Year of Service

| | | |
|---|------------------------------------------|----------|
| 1 | Monthly benefit with service purchase | \$ 3,328 |
| 2 | Monthly benefit without service purchase | \$ 3,213 |

Subtract Line 2 from Line 1.

| | | |
|---|-------------------------------------------------------------------|--------|
| 3 | This is the increase in your monthly benefit due to the purchase. | \$ 115 |
|---|-------------------------------------------------------------------|--------|

Step 2: Determine Time to Recover Purchase Cost

| | | |
|---|--------------------------|----------|
| 4 | Cost to Purchase Service | \$15,973 |
|---|--------------------------|----------|

Divide Line 4 by Line 3

| | | |
|---|--------------------------------------------------------------------------------------------------------------|------------|
| 5 | This is the number of months it will take you to recover your purchase cost in the form of monthly benefits. | 139 months |
|---|--------------------------------------------------------------------------------------------------------------|------------|

Divide Line 5 by 12 months

| | | |
|---|-----------------------------------------------------------------------------------------------------------------------|------------|
| 6 | This is the estimated number of years it will take you to recover your purchase cost in the form of monthly benefits. | 11.6 years |
|---|-----------------------------------------------------------------------------------------------------------------------|------------|

You can also use the Purchase and Reinstatement Cost Recovery Calculator found on our website to estimate your cost recovery time.

Paying for Reinstatements and Service Purchases

You can make reinstatement and purchase payments by:

- Personal check
- Cashier's check
- Money order
- A tax-deferred rollover
- An in-service trustee-to-trustee transfer of funds

For most purchases, filing a purchase application does not create a contractual obligation on your part to complete payment. There is no set monthly or other periodic payment due: you pay what you want, when you want. However, paying off your reinstatement or purchase earlier may result in a lower total cost due to annual recalculations of your balance due or the accrual of interest. The reinstatement or purchase must be paid in full before retirement in order for all the service to be considered in retirement eligibility and included in the calculation of your retirement benefit. If you do not complete payment in full, in most cases, you may receive proportional service based on the payments you make.

Tax-Deferred Rollovers

In most cases, it is advisable to use tax-deferred (pre-tax) retirement options, such as an IRA, 403(b), 457(b), 401(k), or another qualified plan, to accumulate funds to pay for a reinstatement or service purchase. (Note: this does not include funds in a Roth IRA.) Directly transferring funds from a qualified plan in your (the member's) name can protect the tax-deferred status of the funds and avoid tax payments and tax penalties at the time of transfer. We suggest that you contact a tax professional of your choice for guidance concerning this issue.

PSRS can accept tax-deferred rollovers for the payment of reinstatements of service and service purchases provided that acceptance of any funds from any authorized plan or account will not jeopardize PSRS' tax-qualified status. The funds must be an "eligible rollover distribution" from plans permitted under the Internal Revenue Code.

Generally, this includes the following:

- A 401(a) tax qualified plan, including a Keogh plan which meets additional requirements pertaining to owner-employees
- A 403(a) qualified annuity plan
- A 408(a) individual retirement account or a 408(b) individual retirement annuity, to the extent that the IRA contains funds that have not been previously taxed
- A 403(b) qualified plan
- All state and local government 457(b) deferred compensation plans
- Any other plans or accounts that may be authorized as a source of eligible funds under the Internal Revenue Code, provided PSRS shall not be obligated to accept any funds from any such authorized plan or account if the funds would jeopardize the tax-qualified status of PSRS
- The member, if the amount was distributed to the member from a qualified plan and is rolled over by the member to PSRS within 60 days of that distribution, and if the member's check is accompanied by proof of rollover eligibility

Rollovers must be limited to the cost to purchase or reinstate service for which you are eligible.

Completing a purchase can sometimes take six months or longer to verify your service and complete a rollover or tax-deferred transfer. Start the process early to give yourself and your financial institution adequate time to complete the transaction.

You can obtain a *Rollover/Transfer Certification* form and information sheet on our website, or by contacting our office.

In-Service Trustee-to-Trustee Transfers

PSRS can accept an in-service trustee-to-trustee transfer in payment of reinstatements of service and service purchases if the money is transferred from:

- An annuity contract or plan described in section 403(b) of the Internal Revenue Code
- An eligible plan under section 457(b) of the Internal Revenue Code

In order to use an in-service trustee-to-trustee transfer to reinstate or purchase service, two requirements must be met:

- Your 403(b) or 457(b) plan must allow in-service trustee-to-trustee transfers. You should contact your plan administrator to find out if your plan qualifies.
- The transfer must be limited to the cost to purchase or reinstate service for which you are eligible.