

## Chapter 415-10 WAC

# PURCHASE OF SERVICE CREDIT AFTER STATUTORY DEADLINE RCW 41.50.165

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### DISPOSITION OF SECTIONS FORMERLY CODIFIED IN THIS CHAPTER

415-10-110	Can I purchase SERS Plan 2 credit in SERS Plan 3? [Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-110, filed 10/27/00, effective 11/27/00.] Repealed by WSR 02-03-120, filed 1/23/02, effective 3/1/02. Statutory Authority: RCW 41.50.050(5).
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**WAC 415-10-010 Can I purchase service credit after the statutory deadline?** RCW 41.50.165 generally allows you to purchase service credit that you failed to establish or reestablish within the statutory deadline.

(1) **You must pay the actuarial value of the increase to your retirement benefit.** The actuarial value of the increase to your benefit means the cost to the retirement system trust fund of:

(a) Including the additional service credit in your retirement benefit calculation; and

(b) Beginning your retirement benefit at an earlier age, if applicable. This second factor applies only to PERS Plan 1, TRS Plan 1, and WSPRS Plans 1 and 2.

(2) **The valuation is based upon economic assumptions.** The cost to the retirement system trust fund for the increased value to your benefit is calculated based upon interest rate assumptions adopted by the pension funding council and actuarial factors adopted or approved by the state actuary.

[Statutory Authority: RCW 41.50.050(5) and 41.50.165. WSR 02-03-120, § 415-10-010, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-010, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-010, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-020 Definitions.** As used in this chapter:

(1) **Average earnings** means:

(a) In PERS Plan 1, TRS Plan 1 or WSPRS Plan 1: The average of your two highest consecutive years of compensation as of the date of your service credit purchase.

(12/27/07)

(b) In Plan 2 or Plan 3: The average of your five highest consecutive years of compensation as of the date of your service credit purchase.

(c) In PSERS: The average of your five highest consecutive years of compensation as of the date of your service credit purchase.

(d) In LEOFF Plan 1: The basic salary attached to your position at the date of your service credit purchase.

(2) **Factors** means the actuarial cost factors calculated by the state actuary and adopted by the department that are used in the formulas for calculating the cost of a service credit purchase. See WAC 415-02-370 for additional information about the service credit purchase factors.

(3) **LEOFF** means the law enforcement officers' and firefighters' retirement system established under chapter 41.26 RCW.

(4) **PERS** means the public employees' retirement system established under chapter 41.40 RCW.

(5) **PSERS** means the public safety employees' retirement system established under chapter 41.37 RCW.

(6) **SERS** means the school employees' retirement system established under chapter 41.35 RCW.

(7) **Service credit being purchased** means the number of service credit months or service credit years you are purchasing.

(8) **TRS** means the teachers' retirement system established under chapter 41.32 RCW.

(9) **WSPRS** means the Washington state patrol retirement system established under chapter 43.43 RCW.

(10) **Years of earlier retirement** equals the number of years or fractions of years you will be able to retire earlier as a result of your purchase of service credit.

(11) **Years of service** equals the total anticipated years of service you will have accrued at retirement, including the additional service credit you purchase under this section.

[Statutory Authority: RCW 41.50.050(5) and chapter 41.37 RCW. WSR 08-02-048, § 415-10-020, filed 12/27/07, effective 1/27/08. Statutory Authority: RCW 41.50.050(5), 41.50.165. WSR 03-15-006, § 415-10-020, filed 7/3/03, effective 8/3/03. Statutory Authority: RCW 41.50.050(5) and chapter 41.45 RCW. WSR 02-03-120, § 415-10-020, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-020, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-020, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-030 Calculation of cost to purchase service credit in certain plans.** If you are a member of LEOFF Plan 1 or 2, PERS Plan 2 or 3, PSERS, TRS Plan 2 or 3, or SERS Plan 2 or 3, the department will calculate the actuarial value of the service credit you purchase under RCW 41.50.165(2) using the following formula:

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$$\text{Service Credit Purchase Cost} = \text{Average Earnings} \times \text{Service Credit Being Purchased} \times \text{Factor 1}$$

This represents the cost of the additional retirement allowance you will receive by including the additional service credit from your purchase into your retirement benefit calculation.

**Example: Purchase of additional service credit.**

Ron is an active PERS Plan 2 member who currently has 18 years of service. Ron turned age 61 last month. His average earnings are \$50,000. Ron would like to purchase 3 years of service that he previously withdrew but did not restore before the deadline.

The department will first determine Ron's normal retirement age to identify the appropriate factor from the Factor 1 table<sup>i</sup> to use in the formula for calculating the service credit purchase cost. Normal retirement age (NRA) is the earliest age at which a member will be eligible to retire with unreduced benefits under the requirements of his or her system and plan. Ron's NRA will come when he is age 65 and has 21 years of service<sup>ii</sup>. Since he is currently age 61, Ron is 4 years (48 months) to normal retirement age. So, the department will use the factor 0.2016 from the Factor 1 table, which is factor for 48 months to NRA under PERS Plan 2.

The department will then calculate the cost of purchasing the service credit using the Service Credit Purchase Cost formula:

$$\text{Cost} = \text{Average Earnings} \times \text{Service Credit Being Purchased} \times \text{Factor 1}$$

The cost of Ron's purchase would be calculated as follows:

$$\text{Cost} = \$50,000 \times 3 \text{ (years purchased)} \times 0.2016 \text{ (48 months to NRA)} = \$30,240$$

Ron's total cost to purchase 3 years of service credit is \$30,240.

Footnotes to section:

- <sup>i</sup> See WAC 415-02-370.
- <sup>ii</sup> Ron would first qualify under the PERS Plan 2 eligibility rule of being age 65 or older with at least 5 years of service.

[Statutory Authority: RCW 41.50.050(5) and chapter 41.37 RCW. WSR 08-02-048, § 415-10-030, filed 12/27/07, effective 1/27/08. Statutory Authority: RCW 41.50.050(5), 41.50.165. WSR 03-15-006, § 415-10-030, filed 7/3/03, effective 8/3/03; WSR 02-03-120, § 415-10-030, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-030, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-030, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-040 Calculation of cost to purchase service credit for members of PERS Plan 1, TRS Plan 1 or WSPRS Plan 1 or 2.** If you are a member of PERS 1, TRS 1 or WSPRS Plan 1 or 2, the department will calculate the actuarial value of the service credit you purchase under RCW 41.50.165(2) using the following three part formula:

<u>Part 1 Cost</u> =	<u>Part 2 Cost</u> =
Average Earnings	Average Earnings
x	x

Service Credit Being Purchased	Years of Service
x	x
Factor 1	Years of Earlier Retirement
	x
	Factor 2
	x
	Factor 3

$$\text{Service Credit Purchase Cost (Part 3)} = \text{Part 1 Cost} + \text{Part 2 Cost}$$

The Part 1 Cost represents the cost of including the additional service in your retirement allowance calculation. The Part 2 Cost represents the cost of beginning your retirement benefit at an earlier age. If your purchase does not allow you to begin your retirement at an earlier age, your Part 2 Cost is zero.

**Example: Purchase of additional service credit that enables earlier retirement.**

Don is an active PERS 1 member who currently has 18 years of service. Don turned age 50 last month. His average earnings are \$50,000. Don would like to purchase 3 years of service that he previously withdrew but did not restore before the deadline.

The department will first determine Don's normal retirement age. Normal retirement age (NRA), is the earliest age at which a member will be eligible to retire with unreduced benefits under the requirements of his or her system and plan. The department will use Don's NRA to identify the appropriate factor from the Factor 1 table<sup>i</sup> to use in the formula for calculating the Part 1 Cost. Since Don can retire earlier due to the service credit purchase, the normal retirement age will also be used to identify the appropriate factor from the Factor 3 table<sup>ii</sup> to use in the formula for calculating the Part 2 Cost. Don's NRA will come in 7 years when he is age 57 and has 25 years of service<sup>iii</sup>. Since he is currently age 50, Don is 7 years (84 months) to normal retirement age. So, the department will use the factors for 84 months to NRA from the Factor 1 table and the Factor 3 table.

The department will next determine how much earlier Don can retire if he purchases service credit. If Don purchases 3 years of service, his service credit total will increase to 21 years. This means that Don would reach 25 years of service when he is age 54. In another year, Don would be eligible to retire (age 55, with 26 years). With the purchase, Don is eligible to retire 2 years earlier (age 55) than his NRA of 57.

The department will then calculate the cost of purchasing the service credit using the three part formula:

$$\begin{aligned} \text{Part 1 Cost} &= \text{Average Earnings} \times \text{Service Purchased} \times \text{Factor 1} \\ \text{Part 2 Cost} &= (\text{Total Service}^{\text{iv}}) \times (\text{Average Earnings}) \times (\text{Factor 2}^{\text{v}}) \times (\text{Years of Earlier Retirement}) \times (\text{Factor 3}) \\ \text{Service Credit Purchase Cost (Part 3)} &= \text{Part 1 Cost} + \text{Part 2 Cost} \end{aligned}$$

The cost of Don's purchase would be calculated as follows:

Part 1 Cost = \$50,000 x 3 (years purchased) x 0.1680 (7 years to NRA) = \$25,200  
 Part 2 Cost = \$50,000 x 26 years x 2 years earlier x 0.00434 (PERS 1) x 0.7940 (84 months to NRA) = \$8,959  
 Service Credit Purchase Cost (Part 3) = \$25,200 + \$8,959 = \$34,159<sup>vi</sup>

Don's total cost to purchase 3 years of service credit is \$34,159.

Footnotes to section:

- <sup>i</sup> See WAC 415-02-370.
- <sup>ii</sup> See WAC 415-02-370.
- <sup>iii</sup> Don would qualify under the PERS Plan 1 eligibility rule of being age 55 or older with at least 25 years of service.
- <sup>iv</sup> This means the total service credit the member would have at retirement, including the purchased service credit.
- <sup>v</sup> See WAC 415-02-370.
- <sup>vi</sup> This result is rounded to the nearest dollar.

[Statutory Authority: RCW 41.50.050(5), 41.50.165. WSR 03-15-006, § 415-10-040, filed 7/3/03, effective 8/3/03. Statutory Authority: RCW 41.50.050(5), chapter 41.45 RCW, and RCW 41.50.165. WSR 02-23-037, § 415-10-040, filed 11/13/02, effective 1/1/03. Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-040, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-040, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-050 Restrictions on purchasing service credit.** (1) **You may not purchase service credit under RCW 41.50.165(2) if your deadline to establish or reestablish the service credit has not expired.**

(2) **If you are reestablishing credit you must purchase at least the service credit you earned in any one calendar month of employment.**

(3) **If you are establishing credit for the first time you must purchase the entire period of service.** If you are not reestablishing credit canceled by a withdrawal of contributions, you must purchase the entire period of service.

(4) **Your ability to purchase service credit may be limited by Internal Revenue Code restrictions.** The department may limit the amount of service credit you may purchase in any calendar year in order to stay within the maximum employee contribution limits established by the Internal Revenue Code for 401(a) tax qualified plans.

(5) **You may not make installment payments.** If you purchase service credit under this section, you must make payment in a single lump-sum as determined by the department for each unit of service credit purchased.

(6) **Purchasing service credit will not move you from one plan to another.** Plan membership is based upon the date your retirement system membership was established. Purchasing prior service credit does not change the date you first established membership and therefore does not change your plan membership.

[Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-050, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-050, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-060 Crediting service credit purchases.**

If you do not purchase all of your previously withdrawn service credit, the department will recredit your purchased service beginning with the oldest month of service canceled by your withdrawal.

[Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-060, filed 12/6/96, effective 1/6/97.]

(12/27/07)

**WAC 415-10-070 Requesting an estimate—Requesting a bill.** (1) **The department will provide you a service credit purchase estimate upon request.** If, after receiving the estimate, you wish to purchase some or all of the available credit you must request a bill in writing. Your request must identify the amount of service credit you wish to purchase.

(2) **Your bill will be based on a specific date of payment.** The cost to purchase the service credit could change if you attempt to pay after the specific payment date listed on the bill. If you do not make payment by the bill's due date but still wish to purchase service credit, you must request a new bill from the department.

[Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-070, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-080 If I purchase service credit under RCW 41.50.165, can I receive a refund of my payments?**

(1) **You may receive a refund only after you separate from service and apply for withdrawal of your contributions.** Your payments to purchase service credit under RCW 41.50.165(2) qualify as a part of your accumulated contributions. There are additional restrictions for TRS Plan 1, LEOFF Plan 2 and members of the Plan 3 systems as listed in subsections (2), (3), and (4) of this section.

(2) **Restrictions for TRS Plan 1 members.** At the time of retirement, RCW 41.32.498(2) prohibits you from withdrawing payments made to purchase service credit under RCW 41.50.165(2).

(3) **Restrictions for LEOFF Plan 2 members.** Payments made to purchase service credit under RCW 41.50.165(2) and interest on those payments will be refunded at one hundred percent. Those payments will not be included when calculating the one hundred fifty percent refund of contributions under RCW 41.26.540 (1)(b).

(4) **Restrictions for Plan 3 members of TRS, SERS and PERS.** When you apply for service credit under RCW 41.50.165(2), one-half of the amount due will go into your defined benefit plan and one-half will go into your defined contribution plan. As a member of any Plan 3 system, you may apply for a refund of your contributions from the **defined contribution** portion of your account upon separation from employment. Your refund will be based on the market value of your contributions, including earnings and losses, at the time you withdraw. The defined benefit portion will be paid when you are eligible to receive benefits.

**Example 1 (Market has gains):**

Joe restores 5 years of service credit at a total cost of \$10,000.00. One-half, or \$5,000.00, goes into Joe's defined contribution plan member account, and the other \$5,000.00 goes into the pension trust fund for his defined benefit plan. Joe separates two years later and applies for the withdrawal of his defined contribution account. While Joe was in service the market experienced gains. The value of Joe's defined contribution account is now \$6,000.00. Joe receives \$6,000.00 (minus applicable taxes and penalties). The defined benefit portion is not refundable but Joe will receive a one percent defined benefit allowance when he is eligible.

**Example 2 (Market has losses):**

Joe restores 5 years of service credit at a total cost of \$10,000.00. One-half, or \$5,000.00, goes into Joe's defined contribution plan member account, and the other \$5,000.00 goes into the pension trust fund for his defined benefit plan. Joe separates two years later and applies for the withdrawal of his defined contribution account. While Joe was in service the market suffered a loss. The value of Joe's defined contribution account is now \$4,000.00. Joe receives \$4,000.00 (minus applicable taxes and penalties). The defined benefit portion is not refundable but Joe will receive a one percent defined benefit allowance when he is eligible.

[Statutory Authority: RCW 41.50.050(5), 41.26.540, 41.32.498, 41.40.730, 41.40.830, 41.50.160, 41.50.165, 41.50.175. WSR 02-03-120, § 415-10-080, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-080, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-080, filed 12/6/96, effective 1/6/97.]

there is no provision for purchasing service credit earned in Plan 3 under RCW 41.50.165.

[Statutory Authority: RCW 41.50.050(5), 41.50.165, 41.50.175. WSR 02-03-120, § 415-10-100, filed 1/23/02, effective 3/1/02. Statutory Authority: Chapter 41.50 RCW. WSR 00-22-049, § 415-10-100, filed 10/27/00, effective 11/27/00. Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-100, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-090 If I reenter employment after separating from service and withdrawing my plan contributions, must I restore all periods of service?** If you separate from service, withdraw your plan contributions and then become reemployed with an employer and wish to restore your withdrawn contributions, you must restore all periods of service by repaying the accumulated contributions you withdrew plus interest, if applicable. This includes any payments you made under RCW 41.50.165(2) to purchase service credit plus any interest attributed to those payments.

[Statutory Authority: RCW 41.50.050 and 41.50.165. WSR 97-01-014, § 415-10-090, filed 12/6/96, effective 1/6/97.]

**WAC 415-10-100 Can a Plan 3 member purchase service credit? (1) Transferring purchased Plan 2 credit under RCW 41.50.165(2) into Plan 3.** If you purchase Plan 2 service credit under this chapter and later enter Plan 3, that credit will also transfer to Plan 3.

(a) Fifty percent of the money you paid to purchase the service credit will be credited to the Plan 3 defined contribution account.

(b) The other fifty percent will be credited to the Plan 3 defined benefit plan established under RCW 41.32.831 for TRS Plan 3, RCW 41.35.600 for SERS Plan 3, and RCW 41.40.780 for PERS Plan 3.

**(2) Purchasing Plan 2 service credit after transferring to Plan 3.** You may purchase service credit initially available under Plan 2 after you transfer to Plan 3. The service will be credited in Plan 3. If you purchase Plan 2 service credit under this chapter, fifty percent of the money you pay to purchase the service credit will be credited to your Plan 3 defined contribution account. The other fifty percent will be credited to the Plan 3 defined benefit portion established under RCW 41.32.831 for TRS Plan 3, RCW 42.35.600 for SERS Plan 3 and RCW 41.40.780 for PERS Plan 3.

**(3) Not applicable for service earned after transferring to Plan 3.** Service you earn as a Plan 3 member is automatically recredited if you reenter membership and earn at least twelve service credit months. Plan 3 does not have any deadlines on establishing optional service. Because there are no deadlines for establishing or reestablishing service credit