

BUYING CREDITABLE SERVICE



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Who Should Read This Brochure

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

You should read this brochure if:

- You left WRS employment, took a separation benefit and returned to WRS employment. You may be eligible to buy **Forfeited Service**.
- You are not a teacher and you began your WRS service before January 1, 1973. You may be eligible to buy **Qualifying Service**.
- You have worked for a non-WRS public employer at the federal, state or local level. You may be eligible to buy **Other Governmental Service**.

Importance of Years of Service

When you retire from the Wisconsin Retirement System, 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). Purchased service does not count toward the service requirements for WRS vesting.

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 must receive your application and payment to purchase service *before* you terminate WRS employment.
- You must have at least 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 but must be immediately preceding the application to purchase service.
- 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. 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.
- 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 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 Reserves or 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 or other governmental service you may be eligible to buy.

Other Uncredited Service

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.

What Purchasing Service Can Do For You

Increase Creditable Service

Additional creditable service may give you the following:

- A higher retirement or disability benefit if your annuity is calculated as a formula benefit. For formula benefit calculation purposes, regardless of when you originally earned the service, service forfeited through a separation benefit paid to you before January 1, 2000 is treated as pre-2000 service. Service forfeited through a separation benefit paid to you after December 31, 1999 is treated as post-1999 service.
- 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 WRS creditable service that you have, 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 the 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.

- Additional creditable service may increase your formula benefit to the maximum amount 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 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

In order to buy any type of creditable service, you must meet the following requirements:

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

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 a contribution rate of 7% would cost approximately \$5,250.

$$\$25,000 \times 7\% \times 3.00 \text{ years} = \$5,250$$

The contribution rate used is the rate in effect for each forfeited service employment category when the estimate is prepared. The contribution rates may change each calendar year so the cost to buy forfeited service can change even if your 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.

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.

Please review the *Buying Other Governmental Service* (ET-2207) brochure for additional information. This brochure is available online at etf.wi.gov.

Qualifying Service

The cost of buying qualifying 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

Forfeited and Qualifying Service

Using your estimated cost to purchase service, and the resulting increase to your annuity, you can calculate the potential return on your investment. This may help you decide whether you would be better off purchasing service or investing your money elsewhere. You can calculate this return in two ways:

1. **Payback period.** To estimate your payback period, divide the total service purchase cost by the annual benefit increase. This will give you an estimate of the number of years after you have retired that it will take to recover your cost.

Cost to Purchase Service ÷ Estimated Annual Increase = Years to Recover Investment

$$\$18,000 \div \$3,600 = 5$$

2. **Rate of return.** To estimate your rate of return, divide the annual benefit increase by the total service purchase cost. If your benefit increase would give you a 20% rate of return, you would recover your investment within five years after you retire.

Estimated Annual Increase ÷ Cost to Purchase Service = Rate of Return

$$\$3,600 \div \$18,000 = .20 \text{ or } 20\%$$

The rate of return is based on the initial amount of your annuity in the For Annuitant's Life Only annuity option, with no age reduction 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.

Other Governmental Service

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.

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 cannot receive a retirement benefit until age 55 if your only protective category service is purchased service (e.g. forfeited protective category service that you have purchased).

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 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, ETF will provide estimates of the cost to buy forfeited service, qualifying service and Other Governmental Service. These estimates are subject to audit. If the audit process changes the amount you owe, ETF will bill you for any additional amount due or send you a refund of any overpayment.

Your estimate from ETF will specify a due date. The estimate is valid until this date, although it could still change because of an audit.

- If your earnings are reported by calendar year (you are a general or protective employee), the due date is the first business day in January.
- If your earnings are reported by fiscal year (you are teacher, judge or educational support personnel), the due date is the last day of the fiscal year, or the next business day when that is a weekend or holiday.
- If ETF receives your application 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 may pay for your service in the following ways:

- Pay the full amount with your application.
- Use your voluntary employee additional contributions.
- Pay up to 90% of the cost through a direct plan-to-plan transfer of funds from certain other retirement plans. A minimum of 10% of the total cost is due with your application. The outside plans from which ETF can accept funds to buy WRS service are those authorized under Internal Revenue Code sections:
 - 401(a),
 - 401(k),
 - 403(b) and
 - 457(b)

The Wisconsin Deferred Compensation Program (WDC) is a Section 457 (b) account.

You may not pay for service by transferring funds from Individual Retirement Accounts and other plans not listed above.

An application to purchase service is irrevocable once the ETF receives payment.

Even after you have paid for your service, an estimate from ETF is subject to audit. If the audit process changes the amount you owe, ETF will bill you for any additional amount due or send you a refund of any overpayment.

Investment of Service Purchase Payments

When Your Payment is Invested

Your payment will not earn interest in the year that ETF receives it. It will be invested in the WRS trust funds and will begin to earn interest for the calendar year after ETF receives it. There is no prorated interest in the calendar year that a payment is received.

- If you are purchasing service more than a full calendar year before retirement and want to earn calendar year interest, ETF must receive your payment by ETF's 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 ETF to receive those funds before December 31.

Where Your Payment is Invested

If you participate only in the Core Fund when your application is received, your entire payment will be deposited in the Core Fund. If you participate in the variable fund when your application is received, half of your service purchase payment will be deposited in the variable fund and half in the core fund.

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 you can calculate how much service that amount of money will buy if you have a certain amount of money you wish to use to buy forfeited service. *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 two 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 to purchase that service would be \$26,000. The top sample calculation assumes that you want 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 calculate the amount of service you can buy for \$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.

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

- Your name
 - Your Social Security number or Member ID
 - Your date of birth
-

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.

The Department of Employee Trust Funds 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.



Cover photo courtesy of the Wisconsin Department of Tourism.

Contact ETF

Visit us online at etf.wi.gov

Find Wisconsin Retirement System benefits information, forms and publications, benefit calculators, educational offerings, email and other online resources.

Call us toll free at 1-877-533-5020 or 608-266-3285 (local Madison)

Benefit specialists are available 7:00 a.m. to 5:00 p.m. (CST) Monday-Friday

Self-Service: Order forms and brochures, change your address information or tax withholding 24 hours a day, 7 days a week.

Wisconsin Relay Service for hearing and speech impaired: 7-1-1
1-800-947-3529 (English), 1-800-833-7813 (Spanish)

Write or Return Forms

P.O. Box 7931
Madison, WI 53707-7931

Visit by Appointment

801 West Badger Road
Madison, WI 53713
7:45 a.m. to 4:30 p.m.

