



TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
January 2011 PURCHASE OF SERVICE CREDIT
PROGRAM DESCRIPTION
SPECIAL ANNOUNCEMENT

Since January 1, 2005, the City's Purchase of Prior Service Program has been available to all eligible employees. This program allows members of the Tucson Supplemental Retirement System to purchase all eligible pension service credit for prior government service. Purchased service credits will increase benefits payable from TSRS upon retirement. Prior service time available for purchase is any prior government service that is not treated as creditable service for pension benefits in another pension system. It is important for members to note that purchased service credits of any type allowed (either prior service, or permissive service credits described in the following paragraph) **do not count** toward meeting the minimum five years of accrued service required for vesting in TSRS.

On November 21, 2007, a new additional "Permissive Service" type of service purchase program was added to the Tucson Supplemental Retirement System (TSRS). Although this new program does not require employees to provide evidence for any years worked for a governmental entity, the employee must be vested before they can purchase permissive service credits. To be vested means the employee has accumulated a total of five years credited service in their pension account from their employment with the City of Tucson. For the purpose of vesting, service credits transferred to TSRS from the Arizona State Retirement System will count toward reaching the five years required for vesting.

The number of years that can be purchased through this new Permissive service program can be limited to five years, depending on how the member chooses to pay for the service credit. Unlimited purchases are available if the member uses a rollover payment from either a section 403(b) or 457 deferred compensation account as the source for the payment. A five year limit is imposed if the sources of funding used by the member are cash; after-tax or pre-tax payroll deductions; or, from rollovers from any other retirement savings account balances authorized by the IRS (other than 403(b) or 457 accounts. Effective January 1, 2011, the purchase of nonqualified permissive service is limited to a total of five years, including all permissive service credit years purchased previously.

The cost to purchase prior service is determined by reference to a rate table that uses the member's attained age and eligibility age at the time of purchase. The rate table to be used in future years will be set by the Tucson Supplemental Retirement System Board of Trustees annually. Because purchasing service credits can be a significant financial decision, we recommend that you schedule a consultation with the retirement staff to discuss the cost and retirement benefits associated with such a purchase.

As a planning reminder for employees, it is the member's obligation to obtain all documentation verifying prior government service with government entities other than the City of Tucson. Employees must use the required TSRS application form. Documentation of prior service must be submitted with the application to purchase prior service; otherwise, the purchase cannot be completed. The form for prior employment verification can be obtained from the Retirement office on the 1st floor of City Hall.

Program Highlights

Examples of the more common types of government service that can qualify for this program include:

1. Employment service with the City of Tucson prior to an employee's participation in the Tucson Supplemental Retirement System ("TSRS").

July 2009 PURCHASE OF SERVICE CREDIT - PROGRAM DESCRIPTION

- If your full-time employment for the City started prior to September 1988, you were probably required to wait a year or more before being allowed to participate in the City's pension plan.
 - This program also gives a rehired City of Tucson employee an opportunity to replace lost time if the employee previously left employment, withdrew their pension contributions and did not repay this amount within the period of time allowable upon rehire.
2. Employment by City of Tucson employees that have previously served our country in any branch of the United States Military or National Guard. This type of service is defined as either active or reserve service indicated by the member's form DD 214 or other appropriate documentation.
 3. Employment by City of Tucson employees having previous permanent full-time employment with other Federal, State or Local Government Agencies is requested on forms provided and verified by the Retirement Office.

If you have prior government service not listed above you should contact the retirement office to determine if it is service that qualifies for purchase. If you have no prior government service, and you meet the eligibility requirements of five years accrued service, you may be allowed to purchase "Permissive Service".

The following methods of payment are available for this program:

1. Lump sum payment. Payment by check is due within 10 business days from the date you are informed of the cost to purchase your prior service.
2. Members can request a balance transfer from their deferred compensation account(s).
 - The transfer requested cannot exceed the amount due for purchase of service
 - Rollovers from other retirement savings account balances may be authorized by the IRS to be used for payment of the amount due.
3. Payroll Deduction Elections (pre-tax or after-tax installment payment options):
 - Interest will be charged to payments at the same rate at which earnings are credited to the member's account balances. Currently, the rate is 6.0%, but can be changed by the Board at any time.
 - Payroll deductions are subject to some limitations under the Internal Revenue Code.

Members electing to make Pre-tax basis payroll deductions must observe these requirements for this option:

- Members can elect to purchase service by making a binding and irrevocable agreement to make installment payments with payroll deductions. Bi-weekly payroll deductions will begin within 2 pay periods of acceptance of the member's purchase of service agreement with a maximum period of 5 years allowed.
- Pre-tax payroll deductions are irrevocable for the duration of the payroll deductions specified in the agreement, unless a termination from City employment occurs before the agreement is completed.
- Pre-tax payroll deductions cannot be stopped, increased or lowered, nor can adjustments be made to the duration term of the agreement. No exceptions can be made in the event of a financial hardship.
- Pre-tax service purchase agreements cannot be satisfied by making any other type of payment, or payoff, after the payroll deduction agreement is set in place. The entire cost of the pre-tax service purchase must be funded through pre-tax payroll deductions, and cannot be funded with rollover money or after-tax payments.
- If employment is terminated, or the member submits an application for Retirement Benefits (or enters the End of Service Program) prior to completion of a pre-tax payroll agreement, the member will only receive a prorated amount of service credit based on the principal amount of payments received prior to the retirement.

Members electing After-tax payroll deduction, after all applicable tax withholdings are subject to the following:

- If employment is terminated, or the member submits an application for Retirement Benefits (or enters the End of Service Program) prior to completion of this payroll deduction agreement, the member has the opportunity to pay the remaining balance owed plus any applicable interest, or to accept the amount of pension service credited, as of the date of termination or retirement.

Other Requirements

Upon verification of eligible service and computation of the cost to purchase, the member will have 10 business days to execute the agreement to purchase. After 10 business days, the cost is subject to recalculation by the Retirement Office.

How will buying service credits benefit me?

Buying service credit increases the amount of your pension at retirement by increasing the number of years of service you have at retirement. Added years of service will make you eligible for retirement earlier. For example, if you were age 50 with 25 years of service, you would need 2.5 more points earned from both your years of age increasing and from the years of full-time service before you would become eligible. If you purchased 2 years of credited service, you would then have 27 years of service, but your age would not change. Therefore, you would become eligible by working 1.5 more years, because your age points would increase to 51.5 and your total service points (with the 2 years purchased) would become 28.5, meeting the requirements for eligibility with 80 points of age and service.

What to do?

If you have prior government service or if you wish to purchase permissive service credits and are interested in finding out more about how these programs may benefit you, please contact the Retirement Office at 791-4598 for further information or stop by our 1st floor City Hall office to schedule an appointment. As a reminder, documentation of prior service time for entities other than City of Tucson service must be available and submitted at the time the application to purchase service credits is made.