

Purchasing Service

Maximizing Your IPERS Benefits



IPERS

Working Today for Your Tomorrow

Purchasing service may increase the amount of your IPERS benefits or allow you to retire from IPERS-covered employment earlier. This brochure explains service purchases and when you can make them.



Photo courtesy of the Iowa Tourism Office

The Boone and Scenic Valley Railroad makes a 15-mile round trip from Boone through the Des Moines River Valley. The original track was built in the 1890s. The last trolley service ran in August 1955. The line was purchased by the Boone Railroad Historical Society in 1983.

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WHY SERVICE IS IMPORTANT

Service is important because it helps determine the amount of your retirement benefits. You earn IPERS service credit for each quarter you work in a position that is covered by IPERS. Each quarter your employer reports the IPERS-covered wages you earn. You can earn a maximum of 4 quarters per calendar year.

IPERS calculates your benefits using a multiplier and your highest 3-year average salary. The multiplier is based on the number of years you were in IPERS-covered employment. For most IPERS members, the multiplier increases 2 percent each year, up to 30 years, and 1 percent for the next 5 years.*

Your IPERS benefit is calculated* as follows:

$$\begin{array}{ccc} \textbf{Multiplier} & & \textbf{Salary} \\ \text{(Based on Your Years of Service)} & \times & \text{(Your Highest 3-Year Average)} \end{array}$$

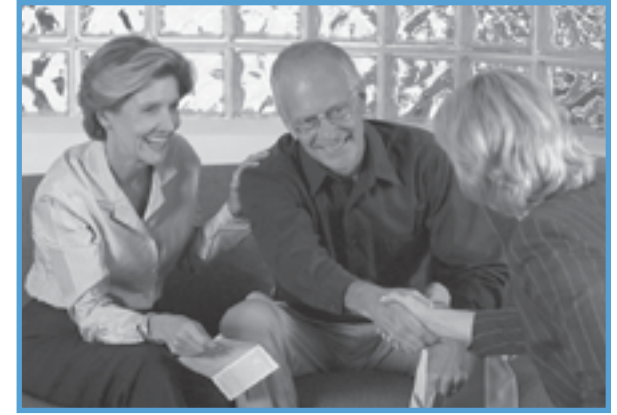
*For most members, your IPERS benefits will be reduced if you receive them before normal retirement age (see box below for information about normal retirement age). Benefits for sheriffs, deputy sheriffs, and members in other protection occupations are not reduced because of age. Benefits for these groups also are determined using a different multiplier.

 **Normal retirement age is one of the following, whichever comes first:**

- Age 65
- Age 62 if you have 20 or more years of covered employment (62/20)
- When your years of service plus your age equals or exceeds 88 (Rule of 88)

PURCHASING SERVICE— PUTTING YOUR SERVICE TO WORK FOR YOU

IPERS allows you to maximize your IPERS benefits through a service purchase. Purchasing service can increase your retirement benefits or enable you to retire earlier. A service purchase allows you to buy service time that you do not already have. This increase in service time results in a higher multiplier (up to the maximum) and a higher guaranteed lifetime pension.



When purchasing service, you make a payment to IPERS in return for the use of additional service credits when your IPERS benefits are calculated. It's important to determine if the added benefits you receive from a service purchase outweigh the cost of making the service purchase.

IPERS provides free service credit for certain times when you are not working in IPERS-covered employment (for example, if you take a military leave of absence or leave of absence granted before July 1, 1998). See page 9 for more information.

 **Why Purchase Service?
More Service = Greater Retirement Benefits**

Purchasing service can increase the amount of your retirement benefits or allow you to retire earlier.

WHY PURCHASE SERVICE?

Here are some reasons a service purchase may be the right choice for you. By purchasing service, you may:

- **Increase the amount of your IPERS benefits.** The multiplier used to calculate your IPERS benefits will be higher, up to the maximum, if you have more service credits. This in turn increases the amount of your IPERS benefits.
- **Eliminate an early retirement penalty.** Your benefits may be reduced if benefits begin before you reach normal retirement age. Purchasing service could help you meet the qualifications for normal retirement age, eliminating or reducing the early retirement penalty.
- **Get credit for time you do not currently have in IPERS.** A service purchase gives you IPERS service credit for time when you would otherwise not have received IPERS service credit. See pages 5–8 for the types of service purchases.
- **Maximize your death benefits.** When you purchase service, you take money you might invest somewhere else and invest it with IPERS. IPERS provides guaranteed lifetime benefits. Your preretirement death benefit will be increased with a service purchase if you die before retirement. Depending on the benefit payment option you choose at retirement, your beneficiary(ies) may receive a larger death benefit if you die after retirement. Other investments may not provide this security.

You may transfer/roll over other retirement plan benefits to purchase service. If you have money in another retirement plan or account, you may be eligible to transfer that money (roll it over) to IPERS. You will be able to use the money to purchase IPERS service. There are restrictions on the types of accounts that can be rolled over to IPERS. See page 13 for more information.

WHAT ARE THE VARIOUS TYPES OF SERVICE PURCHASES?

The various types of service purchases are summarized below. All service purchase applications must be in writing using IPERS' *Application for Service Purchase*. You may purchase service even if you are already retired.

Service purchases are divided into two broad classifications: qualified service purchases and nonqualified service purchases. Qualified service purchases require you to have less IPERS service credit and have fewer limits on how much you can buy than nonqualified service purchases.

Qualified Service Purchases

IPERS Buy-Up Credit Conversion

You may convert regular membership class service credits to Special Service class credits, provided that you meet both of these conditions:

- Are a vested IPERS member.
- Have at least 1 quarter of covered wages on file with IPERS in a Special Service membership class (for example, service as a sheriff, police officer, or firefighter).

Leave of Absence/Workers' Compensation Buy-In

You can purchase IPERS service for a leave of absence or a leave that qualified for workers' compensation benefits that began on or after July 1, 1998, if you meet both of these conditions:

- Are a vested member of IPERS with at least 4 quarters of covered wages on file.
- Were on an approved leave of absence or were absent because of an illness or injury that qualified for workers' compensation benefits.

Members of the Iowa General Assembly

If you served in the Iowa Legislature and elected out of IPERS coverage, you may buy this service.

IPERS Buy-Back Because of Disability

If you terminated covered employment because of an illness or injury that qualified for social security disability benefits or railroad retirement disability benefits and you requested an IPERS refund, you may be eligible to purchase service for the period covered by the refund, provided that you meet all of the following conditions:

- Were a vested member who had terminated IPERS-covered employment because of a disability.
- Have been issued an IPERS refund payment.
- Have begun to receive federal social security disability payments or railroad retirement disability payments for the disability.
- Provide IPERS with a copy of the applicable disability award letter within 90 days of beginning to receive disability payments.

IPERS Buy-Back

If you withdrew accumulated contributions (took a refund) for service earned after July 4, 1953, you may purchase the refunded credit if you meet both of these conditions:

- Are a vested IPERS member.
- Have received 1 or more refunds for the applicable period.

Effective January 1, 2009, you may be able to receive a credit against the actuarial cost of the buy-back if you meet the conditions listed above plus all of the following requirements:

- Received a refund before July 1, 1998.
- Were vested in IPERS when you received the refund.
- Returned to full-time employment before July 1, 1998, with mandatory IPERS coverage.

Veteran's Credit Buy-In

You may purchase IPERS credit for active duty in the Armed Forces of the United States, provided that you meet all of these conditions:

- Are a vested IPERS member with at least 4 quarters of covered wages on file.
- Submit a copy of *DD Form 214* (or other acceptable military records) to verify the dates of the active-duty service.
- Are not receiving and are not eligible to receive military disability benefits in place of military retirement benefits.

You may purchase service credit for all your active duty if you receive retirement pay for nonregular military service (for example, service in the military reserves or disability pay from the U.S. Department of Veterans Affairs that is not paid in place of retirement benefits).

If you are eligible for a regular military pension, your service purchase will be limited to 20 quarters maximum.

Qualified or Nonqualified Service Purchases

The following meet requirements for a qualified service purchase only if you are not eligible for a retirement benefit for the period of employment related to the purchase. If you are eligible for a retirement benefit based on the employment, you may still purchase service, but it will be a nonqualified service purchase. Limits on buying nonqualified service are explained below.

Other U.S. Public Employment Buy-In

You may purchase IPERS service credit for other U.S. public employment if you are a vested IPERS member with at least 4 quarters of covered wages on file. This employment can be as a public employee in another state or the federal government comparable to IPERS-covered employment, or public employment within Iowa that was not covered by IPERS.

Buy-Ins for Members With Elective Coverage

You can purchase service on the basis of employment with optional IPERS coverage if you meet all of these conditions:

- Are a vested IPERS member with at least 4 quarters of covered wages on file.
- Were employed before January 1, 1999, in a position eligible for optional IPERS coverage.
- Have not previously elected coverage for that employment.

Nonqualified Service Purchases

You must have at least 20 quarters of covered wages on file with IPERS to buy nonqualified service. You may purchase up to 20 quarters of nonqualified service.

Nonqualified service is:

- Service that is not considered a qualified service purchase as described above.
- Periods of time in which you did not perform any services at all (known as “air time”).
- Service in public employment (excluding military service) for which you remain eligible for retirement benefits.

Free Service Credit

IPERS will provide you with service credit at no cost for the following types of service:

- Family and medical leaves of absence granted under standards established by the federal Family and Medical Leave Act.
- Service in the U.S. Armed Forces, provided you worked in covered employment immediately before entering the Armed Forces and you return to covered employment within 1 year after leaving active-duty service in the Armed Forces.*
- Leaves of absence granted before July 1998.

If you think you qualify for free service credit, contact IPERS.

*Free service credit will also be granted for your period of military leave if you do not return to IPERS-covered employment because of an active duty injury or disease that results in death. In order to receive this free service credit, the injury or disease must be sustained in a combat zone, hazardous duty area, or during a contingency operation and the death must occur within 2 years after you suffer the injury or disease.

WHAT ARE THE COSTS AND BENEFITS OF A SERVICE PURCHASE?

When you purchase service, you pay money into the IPERS Trust Fund to purchase additional service credits that will be used to calculate your retirement benefits. The added service credits can increase the amount of your benefits or allow you to retire earlier. **Only you can decide if the added benefits you will receive from a service purchase outweigh the cost to purchase the service.**

Service Purchase Costs

You must complete an *Application for Service Purchase* to find out the cost of purchasing service credit. IPERS' actuary determines the cost of your service purchase. A service purchase must pay for the additional benefits you will receive over your lifetime. IPERS does not profit from a service purchase.

The mathematical details behind the calculations for a service purchase are complex. They reflect expectations about future mortality rates, salary increases, and employment patterns. While the actuary uses the same set of assumptions for all service purchase calculations, the impact of the factors varies by individual. You must complete an *Application for Service Purchase* so the actuary can develop a cost quote. Remember, filing an application does not obligate you in any way.

Generally, the sooner benefits begin, the more valuable they are. If the service that is purchased moves up your projected normal retirement date, the service purchase cost reflects more than just the increase in your benefit amount due to the additional service. It also reflects the fact that you will begin drawing benefits earlier.

Based on historical experience, most service purchases cost between 3 percent and 7 percent of your annual pay for each quarter purchased. However, because your individual situation is reflected in the calculations, costs can vary from this range. Two situations that might seem similar could have *significantly* different costs.

Service Purchase Benefits

A service purchase will change the value of your IPERS benefits. Your unique circumstances affect how a service purchase affects your benefits. You need to weigh carefully what you will pay to make the purchase with the benefits you gain.

Here are examples of how service purchases affect other IPERS members. Remember, no two situations are alike. The costs vary significantly from person to person, and even for the same person at different points in time.

Example 1

Joe, age 62, has worked 18 years for an IPERS-covered employer at a highest 3-year average salary of \$45,000. If Joe makes a service purchase for 3 years he worked at a non-IPERS-covered employer, he can increase his monthly pension \$346.50 each month, from \$1,228.50 to \$1,575.

Example 2

Betsy is also 62 years old. She wants to retire after working 27 years for an IPERS-covered employer. With a highest 3-year average salary of \$52,000, Betsy has accrued a monthly pension benefit of \$2,340. However, early in Betsy's career, she took a refund of her IPERS money when she moved out of state for a short time. If Betsy completed a service purchase of her refunded time, she could increase her monthly pension payment to \$2,600 (that's an increase of \$260 a month).

Example 3

Sara is 49 years old. She has not thought about retirement seriously, although she knows she should plan to make sure she will have enough retirement income. Sara has worked 24.25 years for a public employer that takes part in IPERS. If Sara buys 2 years, her monthly benefit payment at age 56 will be \$2,590.35 instead of \$2,420.65. The purchase will cost her nearly \$17,000. However, the increase is \$169.70 a month, or \$2,036.40 a year — for life.

Before deciding whether purchasing service is an advantageous move, Joe, Betsy, and Sara need to consider how long they are likely to draw benefits after retirement. They need to look at their benefit levels with and without the service purchase. They must also consider how the service purchase will affect their beneficiary(ies) and alternative uses for the money they use to purchase service.

HOW TO PURCHASE SERVICE

Complete the *Application for Service Purchase*. Completing the application does not obligate you to purchase service. Completing the application is the only way you can find out how much your service purchase would cost.

Cost quotes are valid for 6 months. If you request more than one cost quote within a 6-month window, IPERS will use the most recent cost quote and all previous cost quotes will become invalid. Your cost quote will include an expiration date. Service purchase payments must be postmarked by the expiration date on the cost quote.

You can purchase all or a portion of your qualified service. For example, if you are eligible to purchase 2 years of service (8 quarters), you can purchase any amount from 1 quarter to all 8 quarters. You may purchase all of your service credit at one time, or in quarter-year increments. However, service purchases made in a calendar year cannot exceed a limit set by the federal government (\$46,000 in 2008), unless you roll over money to IPERS from another retirement account or buy back IPERS service. There is no limit on the amount you can spend in a calendar year when you buy back IPERS service or when you roll over money from another retirement account to purchase service.

Keep in mind that completing the *Application for Service Purchase* does not mean that you are obligated to purchase service.

Although the amount you wish to purchase may be within the dollar limits described above, your service purchase cannot increase your IPERS benefits beyond the IRS limit on annual benefit payments and may be limited accordingly.

Allow IPERS at least 4 to 6 weeks to process a service purchase application.

Using Rollover Money to Purchase Service

If you have money in another retirement plan or account, you may be able to use that money to purchase IPERS service credit. This is called rolling over money to IPERS.

IPERS only accepts rollover money from certain types of retirement plans including:

- 401(a) and 401(c) qualified plans.
- IRA accounts and annuities.
- 403(b) tax-sheltered annuities.
- Governmental 457(b) plans.

If you have money in another retirement plan or account, confirm with your retirement plan administrator the type of plan it is. Remember, the federal government does not limit how much you can purchase in a calendar year by rolling over money to IPERS.



PURCHASING SERVICE CHECKLIST

If you want to purchase service, follow these steps:

- Review the types of service purchases available to see if you are eligible for a service purchase.
- Complete an *Application for Service Purchase* (for an application, contact IPERS or visit <www.ipers.org>). Keep in mind that simply submitting an application does not obligate you to make a service purchase.
- Submit any requested documentation with your application.
- Return your completed application and any supporting documentation to:

Iowa Public Employees' Retirement System
P.O. Box 9117
Des Moines, Iowa 50306-9117
- After you submit your application, IPERS will send you a cost quote if you are eligible to purchase service.
- Review the cost quote and the estimates of monthly pension payments provided to determine if a service purchase is in your best interest. If you decide to proceed, remember to complete the purchase before the expiration of the cost quote (within 6 months).
- Contact IPERS if you have questions about the cost quote or need help determining if a service purchase makes sense for you.

CONTACT US

We're here to help you! If you have questions about IPERS, please don't hesitate to contact us.



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Please contact IPERS to request an alternative format of this publication. Additional brochures are available on our Web site or upon request.



Important

This booklet briefly explains certain rights and benefits of IPERS membership. It is not a substitute for federal and state laws governing IPERS, which provide complete information and are subject to change. Although IPERS makes every attempt to ensure its materials are accurate and up to date, any conflict between the contents of the booklet and law must be resolved in favor of the law. The Member Handbook provides a more detailed description of IPERS benefits. It is available electronically on the IPERS Web site or in print by contacting IPERS.

