

PURCHASE OF SERVICE CREDIT PACKET



This booklet contains the following documents:

- A Guide to Purchasing Service Credit and Repaying Prior Refunds from a Defined Benefit Plan
- 457/401 Participant Request for Trustee-to-Trustee Transfer to Purchase Service Credit Form

A Guide to Purchasing Service Credit and Repaying Prior Refunds from a Defined Benefit Plan

The Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”) added a provision allowing retirement plan participants to use 457 and 401 plan assets to purchase prior service credits or repay a prior refund from a defined benefit (“DB”) plan. The Pension Protection Act of 2006 (PPA) clarified that 457 and 401 plan assets may also be used to purchase years that are not based on actual service (commonly referred to as “air time”). A maximum of five (5) years of “air time” service credit may be purchased.

Purchasing service credits can help you increase the benefits that you will receive from your DB plan at retirement. However, not all DB plans permit service credit purchases.

WHAT IS A DEFINED BENEFIT (“DB”) PLAN?

A DB plan is a type of retirement plan that defines the future benefit to be paid. The DB plan does not generally maintain individual participant accounts, but may do so if employees are required to contribute to the plan.

WHAT IS A DEFINED CONTRIBUTION (“DC”) PLAN?

A DC plan is a type of retirement plan that defines the contributions to be made and maintains an individual account for each plan participant. 457 deferred compensation plans, 401 money purchase plans, and 401 profit-sharing plans are types of DC plans.

WHAT IS PRIOR SERVICE?

Prior service is a period of prior eligible service in a DB plan for which credit has not yet been granted.

WHAT IS A PURCHASE OF PRIOR SERVICE CREDIT?

If permitted by a DB plan, a purchase of prior service credit allows you to “buy” or increase the years of service used in calculating your final DB benefits.

WHAT IS “AIR TIME” SERVICE CREDIT?

“Air time” refers to years that are not based on actual service. The Pension Protection Act of 2006 (PPA) clarified that 457 and 401 plan assets can be used to purchase DB credit for periods regardless of whether service was actually performed (“air time”).

HOW MANY “AIR TIME” YEARS CAN I PURCHASE?

Provided that your DB plan permits purchases of “air time” service credits, you may transfer assets from your 401 and/or 457 plan(s) for “air time” purchases. An eligible individual can purchase a maximum of five (5) years of “air time” service credit.

WHAT IS REPAYMENT OF PRIOR REFUND?

Sometimes, when an individual terminates employment he or she takes the accumulated value of his or her required contributions to a DB plan as a refund. However, taking a refund cancels whatever service credit he or she had with the DB plan. Later if the individual rejoins the plan, he or she may wish to repay the prior refund to “buy back” the lost service.

CAN I USE OTHER RETIREMENT ACCOUNTS TO PURCHASE SERVICE CREDIT OR REPAY A PRIOR REFUND?

If permitted by the plan, actively employed participants in a 457 deferred compensation, 403(b) tax-sheltered annuity, or 401 defined contribution plan may request a direct transfer of assets to purchase service credit or repay a refund of employee contributions to a DB plan.

However, not all 457, 403(b), 401(a), or 401(k) plans permit in-service distributions, nor are they required by law to do so. Alternatively, you may be able to make the transfer after you separate from service and are otherwise eligible for a distribution.

You should contact the plan administrator or the benefits office of your employer to determine whether your plan will permit you to take an in-service distribution for the purchase of service credit or repayment of prior refunds.

HOW CAN I FIND OUT IF MY DB PLAN PERMITS A PURCHASE OF SERVICE CREDIT OR REPAYMENT OF A PRIOR REFUND?

You should contact the DB plan administrator or the benefits office of your employer to determine whether your DB plan will permit you to purchase service credit or repay prior refunds.

ARE THERE REQUIREMENTS/RESTRICTIONS THAT MAY BE IMPOSED BY A DB PLAN REGARDING THE PURCHASE OF SERVICE CREDIT OR REPAYMENT OF A PRIOR REFUND?

Each DB plan may have requirements for the purchase of service credit or repayment of prior refunds. Some common requirements/restrictions are:

- The plan may require you to be actively employed.
- The plan may permit you to be separated from service, but impose restrictions on the period of time after separation during which you may purchase additional service credit or repay a prior refund.
- The plan may require the plan from which you are transferring assets to be in the same state.
- The plan may restrict the number of years of service that you are eligible to purchase.

It is important for you to contact the plan administrator or the benefits office of your employer to determine requirements and/or restrictions imposed by the DB plan concerning the purchase of service credit or repayment of a prior refund.

WHAT IS THE COST TO PURCHASE SERVICE CREDIT?

The cost to purchase service credit varies from DB plan to DB plan. Typical formulas for determining cost are a percentage of current or final average salary or the actuarial cost of the additional credit. Depending on the formula used to determine the cost and the number of years you are purchasing, service credit purchases may be costly. You should contact the DB plan administrator or your benefits office for details on the amount you will have to pay.

WHAT INFORMATION DO I NEED FROM MY DB PLAN?

You should review the form and instructions at the end of this booklet. You will need to obtain all the information required in Sections 2, 3, and 4. This includes the name and address of the plan, the name of the trustee, the amount of the transfer, and documentation from the DB plan of your eligibility for the transfer.

WILL I BE REQUIRED TO PAY TAXES OR PENALTIES ON AMOUNTS TRANSFERRED FROM A 457, 403(b), OR 401 PLAN TO PURCHASE SERVICE CREDIT OR REPAY A PRIOR REFUND?

Amounts transferred from a 457, 403(b), or 401 plan are not required to be included in your gross income, provided the transfer occurs directly from trustee-to-trustee and the amounts are used to (a) purchase service credit in a governmental DB plan or (b) repay a prior refund and earnings from a governmental DB plan.

HOW WILL ICMA-RC PROCESS MY REQUEST?

A completed request to ICMA-RC will be processed within three business days. The amount of the transfer will be drawn from all investments and contribution sources on a pro-rata basis. You will receive a confirmation from ICMA-RC indicating that the assets have been forwarded to your DB plan.

IS PURCHASING SERVICE CREDIT OR REPAYING A PRIOR REFUND ALWAYS A GOOD IDEA?

The cost to purchase service credit or repay a prior refund will vary and can be significant. Some considerations are:

- The purchase, once effected, is irreversible.
- Any investment product restrictions or penalties that may apply, e.g. breaking a certificate of deposit (CD) prior to maturity, etc.
- Whether the benefit increase under the DB plan is greater than potential gains if money remained invested in your 457 or 401 plan.

For questions regarding using your ICMA-RC 457 or 401 plan to purchase service credit, please contact Investor Services at 800-669-7400.

SUMMARY DESCRIPTION

The information provided in this booklet is for informational purposes only and is not to be construed as legal advice or promissory as to whether any particular DB plan will permit a purchase of service credit. ICMA-RC is not liable for any investment losses or tax consequences assessed to you based upon representations made by you regarding your ability to purchase service credit or repay a prior refund in any plan.

The actual rules governing your benefits are contained in state retirement laws and the federal tax code. This publication is a summary, written in less legalistic terms. It is not a complete description of the law. If there are any conflicts between what is written in this publication and what is contained in the law, the applicable law will govern.



457/401 PARTICIPANT REQUEST FOR TRUSTEE-TO-TRUSTEE TRANSFER TO PURCHASE SERVICE CREDIT FORM — INSTRUCTIONS FOR COMPLETION

The 457/401 Participant Request for Trustee-to-Trustee Transfer to Purchase Service Credit Form enables you to request a direct trustee-to-trustee transfer of funds from your ICMA-RC account to a defined benefit (“DB”) plan for the purchase of prior service credit, purchase of “air time” service credit, or to repay a prior refund.

So that we may process your request efficiently, please complete this form accurately and completely and submit to your employer for authorization prior to submitting to ICMA-RC. Please keep a copy for your records.

1. ESSENTIAL INFORMATION

Please complete this section carefully. All information must be completed in order for ICMA-RC to process your transfer request. Please check with your employer or contact ICMA-RC’s Investor Services at 800-669-7400 if you do not know the plan number and/or type.

2. DEFINED BENEFIT (“DB”) PLAN INFORMATION

Please contact your DB plan administrator or your employer’s benefits office for this information. Without completion of all items in this section, ICMA-RC may not be able process your request.

3. TRANSFER REQUEST

The dollar amount of the transfer should be provided to you by the DB plan administrator. ICMA-RC will process this transfer as soon as possible unless you indicate a date in the future.

If requesting a wire, please attach the wire transfer instructions on a separate sheet, including: Bank Name, ABA #, Account Name, Account Number, and secondary bank information (if the wiring instructions include an intermediate financial institution).

You are responsible for making sure your transfer request meets the requirements of the DB plan to which you are transferring.

4. DOCUMENTATION OF ELIGIBILITY FOR TRANSFER

In this section, you certify the dollar amount requested in Section 3. You may do this in one of two ways:

Check Box A if you have documentation from your DB plan provider that certifies the transfer amount you requested. The amount on the document must match the amount you requested in Section 3. Include a copy of this documentation when you send this request to ICMA-RC.

Check Box B if you don’t have documentation, and have Section 4 signed by an official of your DB plan (a trustee or other authorizing official). By signing, the DB plan provider is certifying that the amount you indicated in Section 3 is eligible for transfer.

If the documentation or authorizing signature is not supplied, ICMA-RC cannot process your request.

5. PARTICIPANT SIGNATURE

Sign and date the completed form to authorize the transfer.

Important note: If you are married, requesting a transfer from a 401 plan, and your employer has elected the Qualified Joint and Survivor Annuity (QJSA) option, your spouse will need to consent to the transfer. This is done by completing and returning the *Waiver of Qualified Joint and Survivor Annuity* form. The form is available by calling ICMA-RC at 800-669-7400 or online at www.icmarc.org/forms.

6. EMPLOYER SIGNATURE

Your employer must approve and sign the completed form before ICMA-RC can process your request, unless we have already been notified of your separation from service by your employer. Failure to obtain the required employer signature could delay the processing of your request.

MAILING OR FAXING INSTRUCTIONS

Completed forms should be mailed to:

ICMA-RC
Attn: Workflow Management Team
P.O. Box 96220
Washington, DC 20090-6220

For more timely processing, you may fax the completed forms to ICMA-RC. Forms can be faxed to the attention of the Workflow Management Team at 202-682-6439.



Building Retirement Security

ATTN: WORKFLOW MANAGEMENT TEAM

P.O. BOX 96220

WASHINGTON, DC 20090-6220

800-669-7400

WWW.ICMARC.ORG

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