



FPPA Service Credit for Previous Employment

 *For members of the FPPA Defined Benefit System*

FPPA members may be granted service credit for prior eligible employment with a non-FPPA employer or prior military service under the **Statewide Defined Benefit (SWDB) Plan**, including the **Statewide Defined Benefit Plan Supplemental to Social Security (SWDB-SS)**, the **Statewide Hybrid (SWH) Plan**, or the **Colorado Springs New Hire Pension (CSNHP) Plan**, if certain conditions are met.



7 Questions to Review

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After reading through this brochure if you have questions call one of our **FPPA Retirement Coordinators at Ext. 6400.**

FPPA

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Why is Service Credit important?

Generally, a service credit represents one month of employment with an FPPA covered employer. Service credit is important because a member's FPPA Defined Benefit retirement is based on ALL service credit a member has acquired – the more service credit, the greater the defined benefit. Service credit can be earned, by working for an FPPA covered employer, or granted by a rollover or transfer or payment of funds from another source. A Service Credit purchase allows a member to consolidate multiple retirement assets into one plan.

For members who are already retirement age eligible, not only will the service credit investment increase the dollar amount at retirement, but it could also allow them to retire or enter the Deferred Retirement Option Plan (DROP) earlier.

This application process is initiated by the member.

FPPA recommends you speak with a financial advisor if you are unsure if Purchasing Service Credit is right for you. Consider the following:

- How much will your defined benefit increase as a result of being granted service credit for previous employment?
- How long will it take you to recoup your initial investment in retirement?
- What would you forfeit by requesting money out of an old retirement plan?
- What account or source are you planning to use?
- Was the prior employment considered public or private and was it concurrent with any FPPA covered employment?
- Have you contacted an FPPA retirement coordinator to understand what your options are?

Which previous employment is eligible for purchase?

If a member wishes to be granted service credit for previous employment, the previous employment must fall into one of the following three categories:

- **Other Public Employment *not*** covered under the SWDB Plan, the SWH Plan, or CSNHP Plan includes service as:
 - an employee of the federal, state, or local government;
 - an employee of a public secondary or elementary education organization; or
 - an employee of an association of government employees.
- **Private Employment** includes any service or employment that does not meet the definition of "other public employment", except military service.
- **Military Service** is defined as active duty in the Uniformed Services of the United States and can include reserve service.

Listed below are certain situations in which a member would not be eligible to be granted service credit under the SWDB Plan, SWH plan, or CSNHP Plan for previous employment:

- Public or private employment concurrent with full-time FPPA-covered employment;
- Employment by a foreign government or by any foreign employer;
- Any period of employment for which no pay was received; or
- Service credit that would result in a benefit that exceeds the annual benefit limitation for governmental defined benefit plans as determined under Section 415 of the Internal Revenue Code.
- Minimum amount of time with an FPPA covered employer has not been met. * See terms and conditions for an explanation of the minimum amount of time criteria.

Previously Refunded FPPA Defined Benefit Service: FPPA members who elected a refund from the SWDB Plan or SWH Plan when leaving a former employer, who are now re-employed by an affiliated FPPA employer, and who wish to reinstate the forfeited service credit should contact an FPPA's Retirement Coordinator for information on "reinstatement of forfeited service credit". The information supplied in this packet and the attached forms are not intended for reinstatement of forfeited service credit.

How is the cost of Service Credit calculated?

Generally speaking, the cost of service credit increases as the member ages (up to age 55) and as the member's salary increases. For the SWDB Plan and the SWH Plan the salary used to calculate the cost of service credit is the highest rate of pay (base salary) for any calendar year in the plan. The salary used for members of the CSNHP Plan is the Final Average Salary (FAS) which is basically the average of the member's last 39 payroll periods.

Please refer to FPPA's website for a calculator to help estimate the cost of service credit. It is located under the 'Calculators' area on www.FPPAco.org. Be sure to select the appropriate calculator, either the CSNHP Plan Calculator or the SWDB and SWH Plan Calculator. In addition, remember to estimate what the future salary may be at the time of a future purchase.

You are welcome to contact FPPA and speak to a Retirement Coordinator to help assess your service credit purchase options and estimated cost.

Payment for the Service Credit Purchase: Must be made in a lump sum, in the amount equal to the actuarial cost of that service. Service credit will not be granted until FPPA has approved the request and full payment has been received. Payment in full must be received by FPPA no later than the member's DROP entry date or the last day of active service in the SWDB Plan, SWH Plan, or CSNHP Plan, whichever is earlier.

What documentation does FPPA require?

In order to be granted service credit, the member will need to provide documentation to FPPA. FPPA prefers to receive documentation from the former employer/pension fund to ensure compliance with state law. If this is not feasible, FPPA may accept Social Security records or income tax returns along with dates and places of employment.

The following is the specific documentation required by FPPA for any member requesting to be granted service credit for **previous public** or **private employment**.

- Application to purchase service credit to verify previous employment and earnings.
- Acceptable verification can include:
 - Completion of Section B, (by former employer or pension system)
 - income tax return
 - W-2s
 - a member's earning records or Social Security Annual Statement
 - a letter from a former employer/supervisor with signature acknowledged by a notary public stating the dates of employment and confirming the approximate salary amount paid.
- A legible copy of the member's driver's license.
- Current account balance statements showing the source of all assets to be transferred into the FPPA Statewide Defined Benefit System, if applicable.
- Verification that the employment period has an account balance in another pension plan (except military service.) Acceptable documentation includes a written statement from the member unless Section B of the application

shows otherwise. A member who has an account balance in a pension plan for the period of employment for which they are requesting to purchase service credit must use these funds first.

The following is the specific documentation required by FPPA for any member purchasing service credit for **military service**.

- Application to purchase service credit
- A legible copy of the member's driver's license.
- Military Discharge Papers (DD Form 214)

Before FPPA can accept tax-deferred money, the member must provide FPPA with documentation of the source of the money. This is not required if the money is coming from FPPA/Fidelity Accounts.

- FPPA/Fidelity Accounts include:
 - FPPA 457(b) Deferred Compensation Plan
 - Statewide Hybrid Plan – Money Purchase Component
 - Statewide Money Purchase Plan

If the member plans to use other acceptable tax-deferred money, an FPPA Retirement Coordinator will send the member a letter outlining the cost to purchase service credit and a Funds Request for Service Credit Form for the member to provide to the member's plan administrator or IRA custodian to complete and return to FPPA along with or in advance of the distribution check. If FPPA receives money that was not from one of these plans or accounts, the member is responsible for any taxes assessed or penalties charged to the member by the IRS.

When the account balance of the member's qualified transfer is less than the total cost of the service credit for previous eligible employment, the member may pay the remaining balance of the cost in a single lump-sum payment from another acceptable tax-deferred account or after-tax money from a personal checking or savings account prior to the due date established by FPPA. If the remaining balance is not paid, the member will be granted service credit based on the dollar amount received by FPPA.

What is the process?

If a member is interested in purchasing service credit, the process will be as follows:

- **Complete the Service Credit Purchase Application.** The member will need to indicate on the application what assets they are interested in transferring into the FPPA Statewide Defined Benefit System.
 - The application must be completed and signed by the member and the member's former employer or retirement system. Supporting documentation must accompany the application. (It is the member's responsibility to provide the information and documentation necessary to satisfy the requirements of the plan and the plan's rules).
 - Upon receipt of the completed application, FPPA will calculate the cost of the service credit.
- **The member will be notified of the cost in writing.** If still interested, the member must submit the full payment to FPPA by an established deadline. If payment is not received by the deadline, FPPA must recalculate the cost of the service credit. Payment in full must be received no later than the member's DROP entry date or the last day of active service in the SWDB Plan, SWH Plan, or CSNHP Plan, whichever is earlier.
 - If the member is interested in using funds from an acceptable tax-deferred account outside of FPPA and Fidelity Investments, FPPA will send the member a Funds Request for Service Credit Form. The member and the member's former plan administrator must complete this and return it to FPPA before the rollover or transfer can be accepted.

- **The former plan administrator** must submit the member's completed Funds Request for Service Credit Form and payment by the due date established by FPPA. FPPA must receive the member's completed form either before or at the same time that the transfer or rollover is received.
- **Payment must be in a lump sum.** Service credit will not be awarded until FPPA has approved the cost of service credit and full payment has been received. Payment must be received no later than the member's DROP entry date or the last day of active service in the SWDB Plan, SWH Plan, or CSNHP Plan, whichever is earlier.
- **When the full payment is received,** FPPA will record the payment and credit the member's service record with the appropriate service credit. Written confirmation will be sent to the member upon completion of this process.

What funds can be used to purchase Service Credit?

FPPA service credit can be granted using tax-deferred (pre-tax) or post-tax money from certain plans as allowed by the Internal Revenue Code (IRC) or from a member's checking or savings account. If a member has an account in one of the following plans and wants to use it to fund all or part of the service credit cost, the member will need to contact the plan administrator to ensure a distribution can be made from that plan and received by FPPA no later than the due date established by FPPA.

Tax-deferred money from the following plans may be used:

- **401(a) plans:** Many public and private sector defined benefit and defined contribution pension plans are qualified under IRC section 401(a).
- **401(k) plans:** These plans are set up by many private sector employers and a few public sector employers for employees to invest tax-deferred dollars for retirement.
- **457(b) Governmental Deferred Compensation plans:** These plans are set up under IRC section 457 by many public sector employers (usually states or municipalities) for employees to invest tax-deferred dollars for retirement.
- **403(b) Tax Sheltered Annuities:** These plans are set up under IRC section 403(b) by many educational institutions and non-profit employers for employees to invest tax-deferred dollars for retirement.
- **Traditional IRA, SEP-IRA, SIMPLE IRA:** Please consult your Individual Retirement Account (IRA) custodian to ensure eligibility of these funds.

Post-tax money from a personal checking or savings account: Funds from your checking or savings account may also be used to be granted service credit for previous employment or military time.

The following may not be used to be granted service credit for previous employment:

- Roth IRA
- Designated Roth Account (401(k), 403(b) or 457(b))
- Coverdell Educational Savings Account, 529 Plans, or any other college savings accounts

What are the Terms and Conditions?

The terms and conditions to be granted service credit for previous employment, based on each category of employment, are explained below.

Other Public Employment and Private Employment

- The member must provide documentation of the dates covered by the previous public or private service and a record of the salary received.

- **Eligibility**

- **For Other Public Employment:** The member must have at least one year of continuous service credit with the same employer covered by the SWDB Plan, The SWH Plan or the CSNHP Plan (Exceptions apply for department plan conversions. See section below)
- **For Private Employment:** Same conditions as Other Public Employment, except the member must have at least five years of continuous earned service credit with the same employer covered by the SWDB Plan, the SWH Plan, or the CSNHP Plan.
- If a member has a 401(a) pension plan for a period of employment and wants to purchase that period of employment, the 401(a) funds must be used first. The member must provide documentation of the account assets to be transferred.
 - In certain situations, a member may transfer the entire balance of the 401(a) pension plan to purchase the period of public employment in which the 401(a) pension was actually earned – even if that transfer awards more months of service than actually worked.
 - A member purchasing Other Public Employment from a different eligible source can only transfer enough to cover the months of service actually worked for that Other Public Employment.
 - A member purchasing Private Employment may transfer the entire balance of the pension plan into the FPPA Defined Benefit System, provided that the transfer does not result in the member being granted more than 5 years of private service overall.
 - If the qualified transfer exhausts the 401(a) pension benefit, the member may use other funds to purchase service credit with the same employment period as long as the total service credit granted does not exceed the period of previous employment.

(Non 401(a) funds transferred into a 401(a) pension account must be treated as a different eligible source to purchase service credit in the FPPA Defined Benefit System)

- **Special Rules for Departmental Plan Conversions (Also Referred to as Re-Entry):**

The following modification is made for departments participating in a re-entry into the FPPA Statewide Defined Benefit System:

- A re-entry member is eligible to be granted service credit for previous public employment if the member has at least one year of service with the same affiliating employer, prior to the member entering the SWDB, or SWH plan.

Military Service

- Service Credit may only be granted through the purchase of previous military service.
- The member must have at least one year of continuous service credit with the same employer covered by the SWDB Plan, the SWH Plan, or the CSNHP Plan. Exceptions apply for departmental plan conversions into the FPPA DB System (see section above)
- The member may purchase up to five years of service credit for periods of active duty in the military subject to all conditions outlined below.
- The member must provide documentation of the dates of military service and that the member was honorably discharged from that service.
- The member must provide certification from the employer that the service is not intervening service covered by federal “Uniformed Services Employment and Reemployment Rights Act of 1994”, Chapter 43 of Title 38 U.S.C., as amended.
- The member must verify that he or she will not receive a benefit from any retirement plan covering such employment.

This brochure provides plan language information about FPPA's Granting of Service Credit for Previous Employment. More specific information can be found in the Colorado Revised Statutes, the FPPA Rules & Regulations, the Statewide Hybrid Plan Rules & Regulations, and the Colorado Springs New Hire Pension Plan Rules & Regulations. Those documents can be found on FPPA's website, www.FPPAco.org, or copies can be obtained by contacting FPPA.

FPPA

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