

Service Credit

What is Service Credit?

Service credits represent how long a member has worked. They are used to determine vesting, retirement eligibility and, for some members, benefit amount. Employee's automatically earn "participating" credit for the years they work in a KPERS-covered position. Other types of service credit may be purchased or granted to count toward a member's retirement.

How KPERS 1 and KPERS 2 use service

- Vesting
- Retirement eligibility
- Calculating benefit

$$\begin{array}{|c|} \hline \text{Final Average} \\ \text{Salary (FAS)} \\ \hline \text{(e.g. \$40,000)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Multiplier} \\ \hline \text{(e.g. 1.85\%)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{YEARS OF} \\ \text{SERVICE} \\ \hline \text{(e.g. 30 years)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Lifetime} \\ \text{Retirement} \\ \text{Benefit} \\ \hline \text{(e.g. \$22,000/yr)} \\ \hline \end{array}$$

How KPERS 3 uses service

- Vesting
- Retirement eligibility
- Retirement credit rate



*Retirement credits are earned as a percent of pay, based on years of service and recorded as a dollar value.

Years of Service	Percent of Compensation
1-4 yrs	3%
5-11 yrs	4%
12-23 yrs	5%
24+ yrs	6%

Participating Service Credit

Participating service is any service after the employee's KPERS membership date. Members automatically receive service credit while working in a KPERS-covered position or while receiving KPERS disability payments.

Benefit structure	Participating service multiplier	Purchased service multiplier
KPERS 1	1.75% service earned before 1/1/14 1.85% service earned after 1/1/14	1.75%
KPERS 2	1.85%	1.85%
KPERS 3	n/a	n/a

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Keep in mind

- Members continue to receive service credit during approved disability periods.
- Members cannot receive KPERS service credit for any period in which they also participate in any of the following:
 - Kansas Police & Firemen’s Retirement System
 - Retirement System for Judges
 - Board of Regents Retirement Plan
- Members do not earn service credit while on leave of absence (exception for certain members as of July 1, 2017*).

***KP&F members and KPERS members working as police officers and firefighters can receive service credit for paid leave.**

- Retroactive to July 1, 2014
- Paid leave that qualifies: administrative, vacation, sick, personal, Workers’ Compensation, light/temporary assignments
- If employee does not return to work in same or similar position at end of paid leave (except for death or disability), employee loses service credit earned on leave
- If employee voluntarily quits his or her job during leave, he or she can receive service credit for first 365 days of leave

How participating service is credited

Participating service is credited in quarters (three-month periods) according to the employer’s payroll periods. When a member retires, quarters of service credit are converted to years. At retirement, two quarters round up to the next year of service credit.

- Example**
- 9 years + 2 quarters round up to 10 years
 - 19 years + 1 quarter stay at 19 years

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Prior Service Credit

Prior service is the time an employee has worked at his or her employer before the employer affiliated for KPERS benefits.

Non-school

Prior non-school service is credited at a 1% multiplier for each year.

Employer affiliates for...	Employee's prior service	Prior service credit
prior & future service	continuous service	granted immediately*
prior & future service	broken period of service before employer affiliates	granted after 38 quarters (9.5yrs) of participating service, or at retirement if age 65**
future service only	continuous or broken	none granted, but can purchase prior service as in-state public service

*Granted service is employer paid. **Broken periods of non-school service are granted at retirement and count toward retirement eligibility.

Verifying prior service

- Complete an **Employer Certification of Service form** ([KPERS-10](#)).

The KPERS-10 form must be signed by the designated agent at the KPERS employer where the prior service was performed, and the current employer had to affiliate for prior service.

Don't Forget: The employee is responsible for getting former employer's signature.

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Withdrawing Service That Includes Prior Service

When a member withdraws, all service credit is forfeited, even prior service. Two ways to regain withdrawn [prior service credit](#) after a member returns to a covered position:

Option	Result
1. Purchase withdrawn KPERS prior service	All prior service credited to member's account
2. Do NOT purchase withdrawn service	All prior service credited to member's account once member earns 38 quarters (9.5 years) of participating service credit or at retirement (age 65)

Granting Military Service

In some situations, Kansas law allows the Retirement System to grant service credit for active military service at no cost to the member.

The member must:

- Be employed in a covered position immediately before leaving for military duty.
- Return to covered employment with any participating employer within one year of discharge (or two years, if disabled in the line of duty).
- Be off employer's payroll during this time (after discharge and before return to covered employment) to receive granted service credit.

Once the employee returns to covered employment, the employee will need to provide a copy of his or her **DD-214** military papers showing the period of military duty. Granted service is funded by the Retirement System.

<p>Important</p> <ul style="list-style-type: none"> • Granted military service is limited to five years. • Members can purchase up to six years of military service regardless of how many years are granted. • When the member returns from military leave, he or she must re-apply if wanting to purchase the remaining service. If the member left for military service before the end of a quarter, the contributions for that quarter will be refunded. See Military Service.
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Portability (combining service from different retirement plans)

If members have service credit in one of the other retirement plans (KP&F and Judges), they can combine service to vest in KPERS. This is called "portability" (not to be confused with portability of group life insurance). They can also usually combine service credit for retirement eligibility.

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Guidelines for Purchasing Service

Only active members may purchase service credit. KPERS must receive all applications, forms and payments no later than the member's last day on payroll.

- The cost to purchase service is based on the member's age, salary and tier membership at time of application.
- A member who is on KPERS disability may **not** purchase service credit.
- An active KPERS member can purchase his or her withdrawn KP&F or Judges service.
- Most of KPERS 1 purchased service uses 1.75% multiplier to calculate retirement benefit (see type to confirm). All of KPERS 2 uses 1.85% multiplier at retirement.

KPERS 3 Service Purchase

Generally, employees purchase service to vest sooner, retire earlier or increase their retirement benefit. But it doesn't always pay off for KPERS 3 members.

Purchasing service will increase a KPERS 3 employee's retirement credit rate sooner, which will increase his retirement benefit, but only by a small amount. It may take many years in retirement to break even.

Types of Service	Years of Service	Rate (table)	Cost of Purchase	Monthly Benefit
KPERS 3	2.00	3%	–	\$486
Forfeited	14.25 (purchase)	–	\$22,880	–
Total	16.25	5%	\$22,880	\$541 (+\$55)

Years Worked	Annual Rate
Less than 5	3%
5-11	4%
12-23	5%
24 or more	6%

It would take **34 years** in retirement to break even.

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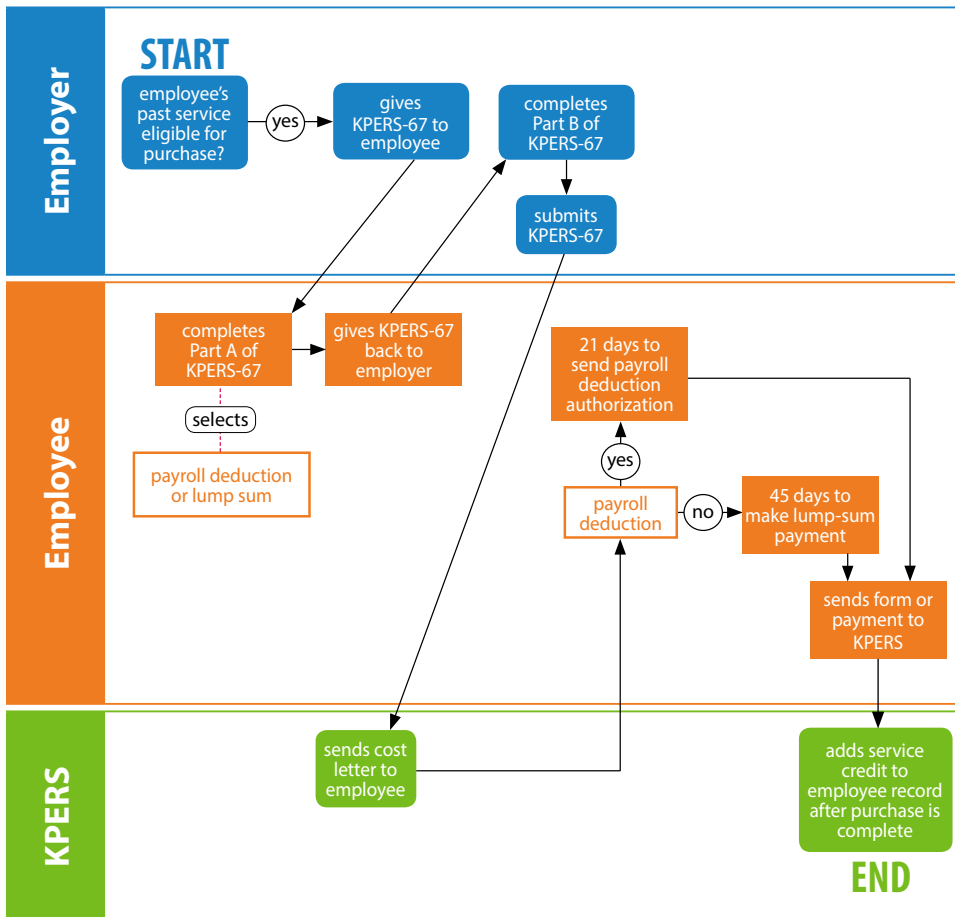
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Process to Purchase Service



Methods to Purchase Service

- Members may make more than one lump-sum purchase at the same time.
- Members may **not** combine more than one payroll deduction purchase at the same time.
- Members may pay for one type of purchase by payroll deduction and one type of purchase by lump sum at the same time.

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Lump-Sum Payment

Personal check, money order, cashier's check and Discover® Card

These funds are considered already taxed by federal and state taxes. This will show on the member's 1099-R tax form if he or she retires or withdraws.

The lump-sum payment must be made to the KPERS office within 45 days of the date of the cost letter. The cost to purchase service is based on the age and salary of the member at time of application.

Rollover

KPERS can accept money from an eligible retirement plan or individual retirement account (IRA) if the transaction meets these requirements:

- ✓ Money consists of pretax contributions and is an eligible rollover distribution.
- ✓ Rollover involves the distribution of entire available balance from the former employer.
- ✓ Employee has ended employment with the employer sponsoring the plan.
- ✓ Employee's previous account is closed with the rollover.
- ✓ Rollover must be an eligible rollover distribution from the following:
 - 401(a) tax qualified plan (including a Keogh plan that meets additional requirements pertaining to owner employees)
 - 401(k) profit sharing plan
 - 403(a) qualified annuity plan
 - 403(b) tax sheltered annuity (educational employer)
 - 408(a) individual retirement account
 - 408(b) individual retirement annuity
 - 457(b) deferred compensation (state and local governmental employers)
 - 60-day rollover if member receives money from a qualified plan and rolls money over to KPERS within 60 days of the distribution
 - Simple or SEP IRA but only if there are no after tax contributions in the Simple or SEP IRA

KPERS can only accept the exact amount of the purchase cost. If the amount in the account is not enough to pay for the purchase, the employee must include the additional money. If there is too much money in the account, the employee must open another account to deposit the excess money. This may have tax consequences.

What is a "Cost Letter"? After KPERS receives an employee's service purchase application, KPERS sends the employee a letter with the cost and terms of the service purchase for which he or she has applied. The employee then has 45 days to make his or her lump-sum payment, or 21 days to submit the payroll deduction authorization form.

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Trustee-to-trustee transfer

1. KPERs can accept money from 457(b) governmental deferred compensation and 403(b) annuity plans to purchase permissive service credit. All types of service credit are considered permissive service as long as the member did not receive credit for that service in another retirement plan.
2. Only permissive service can be purchased with a trustee-to-trustee transfer.
3. If a member purchased service at 1% before July 1996, the member can “buy-up” this service from 1% to 1.75%. The buy-up of the 1% to 1.75% is not considered permissive service.
4. A trustee-to-trustee transfer involves the distribution of part of the employee’s balance of his or her current or former employer plan.

Payroll-Deduction Payment

- Purchased on a pretax basis.
- Payroll deduction continues for as many quarters as being purchased.
- Payroll-deduction service purchase cannot be stopped once started.
- The member must sign the payroll authorization, sent by KPERs, and return it to KPERs within **21 days** of date of the cost letter.
- The payroll deduction contribution is in addition to the member’s regular contribution percentage deduction.
- If the member is leaving employment or retiring, he or she may purchase the remaining quarters by making a lump-sum payment. This lump-sum payment must be complete by the member’s last day on payroll.

Reporting Compensation to Calculate Cost

A member’s service purchase cost is based on his or her age and annual compensation at time of application.

When a member begins a service credit purchase, you will need to provide the member’s annual compensation on the **Application to Purchase Service Credit form** ([KPERs-67](#)).

Annual compensation is the **higher** of:

- Current annual rate of pay – Hourly rate of pay times the number of hours the position requires. Example: \$12 per hour x 2,080 hours = \$24,960
- Total compensation earned in 12-month period immediately before the current month. (Include all [compensation subject to KPERs contributions](#).)
- Final average salary

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Cost of Service Purchase

KPERS 1

If the member is under age 35, a year of service generally costs about 6% of his or her annual salary (or final average salary, whichever is higher). See example below. Each year after age 35, the actuarial cost increases significantly.

[KPERS 1 Service Purchase Tables](#)

KPERS 1 Service Purchase Example - under age 35

Salary or Final Average Salary	Contribution rate 2015 & beyond (5% before 2015)	Service Purchase Cost
\$30,000	x 6%	= \$1,800
\$50,000	x 6%	= \$3,000
\$70,000	x 6%	= \$4,200

KPERS 2

If a member is age 37 or under, a year of service generally costs about 6% of his or her annual salary (or final average salary, whichever is higher). See example below. Each year after age 37, the actuarial cost increases significantly.

[KPERS 2 Service Purchase Table](#)

KPERS 2 Service Purchase Example - under age 37

Salary (or FAS)	Contribution Rate	Service Purchase Cost
\$30,000	x 6%	= \$1,800
\$50,000	x 6%	= \$3,000
\$70,000	x 6%	= \$4,200

Benefit of Purchasing Service Credit (KPERS 1 & 2)

Salary (or FAS)	For each additional year of service, your benefit increases by...	
\$30,000	\$43 per month	\$516 per year
\$50,000	\$72 per month	\$864 per year
\$70,000	\$102 per month	\$1,224 per year

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Year of Service

- Before July 1, 2009, non-school employees worked one year to become eligible for KPERS (a year of service is no longer required for membership in KPERS).
- Members may have more than one “Year of Service” if member has withdrawn previous non-school membership.
- Complete an **Application to Purchase Service Credit form** ([KPERS-67](#)).
- Since purchase costs are based on age and salary, employees who purchase a year of service in the first two years of their membership spend less.

Employees hired July 1, 2008, through June 30, 2009, will have either a year of service or a partial year of service available to purchase. At retirement, the benefit multiplier for this service is 1.75%.

KPERS 2 members may have forfeited service with a year of service attached. At retirement, the benefit multiplier for this purchased service would be at 1.85%.

Partial year of service

A “Partial Year of Service” is a portion of a year worked in a KPERS-covered position that did not result in membership.

The partial year of service must be verified on the **Employer Certification of Service form** ([KPERS-10](#)) by the employer where the service was performed. This form is submitted along with the **Application to Purchase Service Credit form** ([KPERS-67](#)). At retirement, the benefit multiplier for this service is 1.75%.

A KPERS 2 member may have a partial year of service from previous employment that did not result in KPERS membership at the time. At retirement, the benefit multiplier for this service is 1.85%.

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Withdrawn KPERS service

Employees forfeit service when they withdraw service after leaving KPERS-covered employment.

1. Member must purchase all service that was withdrawn, not just a portion. If the member has a year of service connected to the withdrawn service, he or she must purchase the withdrawn service before purchasing the year of service connected to it.
2. KPERS will have a record of all withdrawn service.
3. Complete an **Application to Purchase Service Credit form** ([KPERS-67](#)).

At retirement, the benefit multiplier for this service is 1.75% for KPERS 1 and 1.85% for KPERS 2.

Military service

- Active service – members may purchase year for year of active military service.
- Active or inactive reserve service – members may purchase one quarter for each year of reserve service.
- Members may purchase as little as one quarter to the maximum of six years.
- Members must provide a photocopy of DD-214 military papers to verify military service.
- Complete an **Application to Purchase Service Credit form** ([KPERS-67](#)).

Tip: Before completing an application to purchase service, be sure to confirm the member's military service cannot be granted.

At retirement, the benefit multiplier for this service is 1.75% for KPERS 1 and 1.85% for KPERS 2.

Elected official service

If any elected official becomes a KPERS member:

- He or she can purchase any or all of his or her previous "Elected Official" service regardless of the membership guidelines in effect at that time.
- This service is calculated into quarters and the member may purchase a minimum of one quarter to the maximum of all quarters available.
- Non-participating elected official service in the past, which was concurrent with KPERS membership from another position, cannot be purchased for additional service credit.
- The member must have the elected official service verified on a Employer Certification of Service form (KPERS-10).
- Complete an **Application to Purchase Service Credit form** ([KPERS-67](#)).

At retirement, the benefit multiplier for this service is 1.75% for KPERS 1 and 1.85% for KPERS 2.

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Out-of-state non-federal public service

Members may purchase service credit from public employment in another state. Federal government employment is not eligible.

- When applying to purchase service, the member must choose to purchase service credit at the 1% multiplier or the statutory multiplier (1.75% for KPERS 1, 1.85% for KPERS 2). The member cannot change the percentage.
- The member is responsible for getting form to former employer. Members may purchase service by lump-sum or by payroll deduction.
- Complete an **Application to Purchase Service Credit - Non-KPERS form** ([KPERS-67PS](#)).

Lump-sum guidelines

If a member will receive a pension from the state where the service was performed:

- The member must have five years of participating KPERS service.
- The service cannot include military service.
- The member is limited to purchasing five years of out-of-state non-federal public service.

If the member will not receive a pension from another state for the years he or she is applying to purchase, there is no limit on the number of years the member may purchase.

In-state non-federal public service

Members may purchase in-state non-federal public service.

- When applying to purchase service, the member must choose the 1% multiplier or the statutory multiplier (1.75% for KPERS 1, 1.85% for KPERS 2). The member cannot change the percentage.
- The service may be purchased by lump sum or by payroll deduction.
- Complete an **Application to Purchase Service Credit – Non-KPERS form** ([KPERS-67PS](#)). The member is responsible for getting form to former employer to verify the service.

Lump-sum guidelines

- If a member will receive a pension from where the service was performed, the member must have five years of participating KPERS service (cannot include military service) and
- The member is limited to purchasing five years of in-state non-federal public service.

Payroll deduction guidelines

- The member does not have a limit on the number of years the member may purchase.

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Peace Corps service

- When applying to purchase service, the member must choose the 1% multiplier or the statutory multiplier (1.75% for KPERS 1, 1.85% for KPERS 2). The member cannot change the percentage.
- The service may be purchased by lump sum or by payroll deduction.
- Member must submit a letter from the Peace Corps verifying the dates he or she was part of the Peace Corps.
- Complete an **Application to Purchase Service Credit – Non-KPERS form** ([KPERS-67PS](#)).

VISTA service

- When applying to purchase service, the member must choose the 1% multiplier or the statutory multiplier (1.75% for KPERS 1, 1.85% for KPERS 2). The member cannot change the percentage.
- The service may be purchased by lump sum or by payroll deduction.
- A member must submit a letter from the VISTA service verifying the dates the member was part of VISTA.
- Complete an **Application to Purchase Service Credit – Non-KPERS form** ([KPERS-67PS](#)).

Board of Regents waiting period

- From December 31, 1961, to May 21, 1987, the Board of Regents had a two-year waiting period. During this time, new hires had to wait two years before becoming members. This waiting period is available for purchase.
- After May 21, 1987, the Board of Regents had a one-year waiting period. This waiting period is available for purchase.
- If the member had KPERS service before the Board of Regents position, there was no waiting period.
- Board of Regents waiting period can only be purchased by lump sum.
- Service is verified on an **Employer Certification of Service form** ([KPERS-10](#)).
- Complete an **Application to Purchase Service Credit form** ([KPERS-67](#)).

IRS Restrictions

Qualified plans under federal tax provisions, like KPERS, must follow federal restrictions on some transactions.

The restrictions limit either the years of service that may be purchased or the amount of money that may be put into the plan in a single calendar year.

- Members whose membership date is earlier than July 1, 1999, have been “grandfathered” under federal law and will keep permanently (unless they withdraw).
- Members whose membership date is January 1, 1999, or after may be subject to certain restrictions on their service purchase. The amount of after-tax money that a member may contribute to a qualified plan each year is limited. Please contact the Retirement System.

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- Restrictions apply only to post-tax contributions, not to regular KPERs contributions or tax-free rollovers into the plan.
- Regardless of membership date, any new types of service purchases added to the plan after August 1997 are subject to federal restrictions.

Frequently Asked Questions

Q Can an employee fill out one application to purchase more than one type of service credit?

A No. An employee must submit a separate application to purchase service credit for each type of service.

Q Can an employee fill out one application with a lump-sum option and another application with a payroll deduction option to get cost estimate?

A No. Only after the member has made a decision on method of purchase should he or she submit an application to KPERs. For estimates, members can call the KPERs InfoLine 1-888-275-5737 or email kpers@kpers.org.

Q Can I use my Roth IRA to purchase service?

A Roth IRA or an inherited IRA cannot be used to purchase service credit.

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