



San Francisco Employees' Retirement System

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Service Purchase PURCHASING SERVICE OR PAYING A SHORTAGE

What is a service purchase?

Members of the San Francisco Employees' Retirement System (SFERS) have an opportunity to purchase certain periods of eligible service or pay the shortage of contributions in their retirement account by making payments to the Retirement System. For complete provisions regarding SFERS service purchases, please refer to applicable San Francisco code sections provided below.

You are eligible to purchase service or to pay a shortage of contributions if you are a:

- Current active SFERS member
- Former SFERS member who is vested, but not yet receiving an allowance
- Former SFERS member who has left City employment and elected reciprocity and maintains reciprocal service on account with SFERS and a reciprocal plan, and not yet receiving an allowance from either plan

What types of service purchases are available as a member of SFERS?

Purchases of Service include:

- 1) **Redeposit of Contributions for Periods of Prior Membership** – the replacement of retirement funds previously withdrawn from SFERS - San Francisco Administrative Code Sections 16.47 and 16.48.
- 2) **Prior Service** – City and County of San Francisco (CCSF) service, including San Francisco Unified School District service and San Francisco Community College District service, rendered prior to SFERS membership (certain restrictions may apply to safety members) - San Francisco Administrative Code Section 16.29-15.11. Periods of unpaid employment (e.g. unpaid leave) are not eligible for purchase as prior service.
- 3) **Public Service** – service rendered with the State of California, another California public agency, or the federal government prior to the first SFERS membership – San Francisco Administrative Code Sections 16.55-1 through 16.55-4.
- 4) **Military Service** – service with the armed forces during times of war or conflicts a) while a member of SFERS or b) while you were on a San Francisco Civil Service list and were called for appointment – San Francisco Charter Sections A8.520 and A8.521.
- 5) **Union Representative Service** – service as a full-time employee representative for a recognized CCSF employee organization while a member of SFERS on leave of absence from CCSF position – San Francisco Charter Section A8.519. SFERS cannot accept direct payment from labor organizations to purchase union representative service on behalf of one of its employees.
- 6) **Unpaid Parental Leave** – service for periods of unpaid parental leave prior to July 1, 2003 while a member of SFERS – San Francisco Charter Sections A8.523

Non-service purchases include:

- 1) **Shortage** – replacement of contributions not paid into your retirement account as a result of your previous election to contribute at a reduced rate – San Francisco Charter Section A8.514; and
- 2) **Contributions Owed** – replacement of mandatory contributions that were not deducted from your earnings through payroll

When am I eligible to purchase service or to pay a shortage?

SFERS members may purchase eligible service or pay a shortage at any time prior to your retirement date; however, the purchase of service or payment of shortage must be completed prior to your retirement.

How will the purchase of service benefit me?

The service you purchase will be added to the years of credited service under the applicable plan and used to calculate your pension at retirement. As a general rule, if you retire for service, the more years of credited service you have when you retire, the greater your retirement allowance will be.

The payments that you make towards the purchase of service are added to your SFERS member account. If you separate from City employment and elect a vesting allowance, your monthly benefit will be determined by the balance in your SFERS member account.

As a general rule, the contributions in your SFERS member account from your service purchase will increase the vesting allowance payable to you.

How will the payment of a shortage benefit me?

If you have an unpaid shortage at retirement, your service or disability retirement allowance will be reduced by the actuarial value of any shortage. Paying off all or part of the shortage will therefore increase your service or disability pension.

What are my payment options?

Payment options using **pre-tax** dollars include:

- 1) An agreement for pre-tax payroll deductions (except purchases for unpaid parental leave and union representative service) for the entire amount; or
- 2) A direct rollover of pre-tax dollars into SFERS from another tax-qualified plan.

Payment options using **after-tax** dollars include:

- 1) A lump sum payment of the total amount using after-tax dollars;
- 2) A partial lump sum payment using after-tax dollars; or
- 3) An agreement for after-tax payroll deductions for the entire amount.

You can use a combination of the payment options above to purchase service or pay a shortage subject to the restrictions detailed below.

You can purchase service or pay a shortage using either pre-tax or after-tax dollars for the following:

- Redeposit of Contributions for Periods of Prior Membership
- Prior Service
- Public Service
- Military Service
- Union Representative Service
- Shortage as a result of reduced contributions

You **cannot** establish an agreement for pre-tax payroll deductions to purchase Unpaid Parental Leave or to pay Contributions Owed. You also cannot establish an agreement for pre-tax or after-tax payroll deductions to purchase Union Representative Service. You can purchase Unpaid Parental Leave and pay Contributions Owed using after-tax dollars or a direct rollover from another tax-qualified plan.

Why should I purchase service with pre-tax dollars?

Pre-tax payroll deductions to purchase service or a shortage reduce your reportable taxable income for the tax period in which the pre-tax deductions are made. Like other pre-tax payroll deductions, pre-tax service purchase deductions are taken out before the federal and state taxes on your income are calculated. Your pre-tax contributions to SFERS are accounted for separately and will be taxed in the future as they are paid out to you in retirement benefits or a refund (exception: you can defer taxability of your refund if you elect to have your refund rolled over directly to another tax-qualified plan).

To qualify for this tax treatment, an agreement to use pre-tax payroll deductions to purchase service is subject to the following limitations and restrictions:

- 1) All payments must be made through payroll deductions;
- 2) The service purchase agreement to use pre-tax payroll deductions is irrevocable, therefore you cannot start the service purchase agreement with pre-tax payments and later switch to after-tax payments; and
- 3) You cannot start the service purchase agreement and later change the amount, term or timing of the payments or stop the payments altogether regardless of personal or financial hardship.

Why should I purchase service with after-tax dollars?

After-tax dollars to purchase service or a shortage allows you greater flexibility under the current federal tax laws and SFERS policies. You can start an after-tax purchase agreement and later change the amount, term or timing of the payments, switch the agreement to a pre-tax purchase agreement, or stop the purchase agreement altogether.

Contributions for unfinished after-tax service purchase agreements will not be refunded to you; the pro-rata service that has been purchased through the date of your cancellation of the after-tax agreement will be credited to your SFERS account. SFERS may set limitations on changes to after-tax purchase agreements.

How long can I take to pay for my purchase of service?

A service purchase or shortage may be purchased at any time prior to retirement. Most types of service may be purchased in one (1) fiscal year increments. The term of the service purchase agreement will be governed by the Charter or Administrative Code provisions applicable to the particular service purchase or equal to the amount of service being purchased. However, a pre-tax service purchase agreement cannot exceed 78 pay periods (three years).

How is interest calculated on my pre-tax or after-tax service purchase agreement?

In general, the cost of your purchase includes the interest your contributions would have earned if they had been on deposit with SFERS. In the case of a redeposit, interest is included from the date you withdrew your contributions to the date of full repayment to SFERS.

If you elect a payroll deduction option, your fixed biweekly payroll deduction will be calculated using the current credited interest rate for the term of the service purchase agreement. The credited interest rate used to establish a service purchase agreement will be the SFERS interest rate in effect at the time the agreement is signed. If the Retirement Board changes the SFERS credited interest rate during the term of a service purchase agreement, an adjustment in the total cost of the purchase and/or the service credited upon completion of the agreement may be required. Any additional monies required to complete this agreement after an interest rate adjustment may be paid using pre-tax or after-tax dollars except as noted above. Any overpaid interest resulting from an adjustment in the credited interest rate during the term of your agreement will be refunded to you.

When will I receive the credited service or shortage adjustment from my pre-tax or after-tax service purchase?

When paying in a total lump sum, the purchased service or shortage adjustment is posted to your retirement account immediately. When paying your service purchase through payroll deduction, credited service will be posted to your retirement account only upon completion of the service purchase agreement. However, the contributions you pay for service or shortage will be credited to your SFERS member account as they are paid.

If you terminate your City employment, elect to retire, or die prior to the completion of your agreement, the pro-rata service that has been purchased through the date of your termination, retirement or death will be posted to your retirement account.

Safety members must complete the redeposit of withdrawn safety contributions prior to electing retirement.

Are there minimum and maximum payment requirements for a payroll deduction service purchase agreement?

For both pre-tax and after-tax service purchase agreements, the minimum payroll deduction is \$50.00 biweekly or \$108 per month. Where the periodic interest under the agreement exceeds the minimum payment, the payroll deduction must be at least the periodic interest plus \$5.00.

For pre-tax service purchase agreements, a request for a payroll deduction in excess of 25% of your regular pay must be approved by the SFERS Retirement Services Administrator on a case by case basis.

For after-tax service purchase agreements, there is no maximum payroll deduction. However, a request for a payroll deduction in excess of 25% of your regular pay must be approved by the SFERS Retirement Services Administrator on a case by case basis.

What happens if I am on unpaid leave during the term of my service purchase agreement?

If you are paying using after-tax dollars through payroll deduction, you may make over the counter payments while on unpaid leave. If you are paying using pre-tax dollars through payroll deduction, the payments under the agreement will be suspended until you return to a paid status. Under terms of the pre-tax agreement, you cannot make over-the-counter payments during a period of unpaid leave.

Can I change or terminate my service purchase agreement if I cannot complete the payments?

You cannot change or terminate your service purchase agreement if you have elected payment through pre-tax payroll deductions. Your pre-tax payroll deduction agreement is irrevocable even if you have family hardship, illness or financial problems. Your pre-tax deductions will be taken from your paycheck as long as you are receiving a City paycheck during the term of the purchase agreement.

If you elect to pay your service purchase agreement using after-tax dollars, you are permitted to revise your agreement if your financial situation changes during the term of the agreement. If you terminate the after-tax service purchase agreement before the agreement is paid in full, all payments made through the date of termination of the agreement will be posted on a pro-rata basis to your retirement account. No payments made under a service purchase agreement for credited service or shortage can be refunded to the Member.

Can I use funds from a tax-qualified plan to pay my service purchase agreement?

SFERS accepts tax-deferred rollovers from other tax-qualified plans (e.g. 401(a), 403(b), 401(k) and traditional IRAs, etc.) and transfer of funds from the City's Deferred Compensation Plan for payment of most service purchases. On-going pre-tax payroll deduction agreements cannot be discontinued or changed to take advantage of these new payment methods. Once an existing pre-tax payroll deduction agreement is complete, you can pay off any remaining balances through a tax-deferred rollover or transfer from another tax-qualified plan. You must contact SFERS to schedule an appointment to take advantage of these opportunities.

How Do I Get Started?

For purchases of **Prior Service, Redeposits, Contributions Owed** and **Shortage Payoffs**, please schedule an appointment via our website, mysfers.org, to meet with a SFERS retirement counselor.

For purchases of **Public Service, Military Service, Union Representative Service** and **Unpaid Parental Leave**, please complete the appropriate application, available on mysfers.org. Once the completed application is received and reviewed, a retirement counselor will contact you to schedule an appointment.