Service Credit Purchases:

NEW!

Payment Contracts and 457 Transfers

Section 1:

Portability Possibilities for CCCERA Active Members

Section 2:

Service Credit Purchases Using
Payroll Deduction Contracts
and/or
Lump Sum Payments

Section 1:

Portability Possiblities for CCCERA Active Members Using 457 Retirement Plan Contributions

Tax deferred 457 retirement plan contributions can now be used to *purchase eligible service credit* to maximize your CCCERA retirement benefits. Prior to the passage of EGTRRA (year 2001 tax code reform), contributions were non-transferable between retirement plans or employers without triggering substantial early withdrawal tax liabilities.

The process for successful transfers (direct trustee-to-trustee rollovers) is **very specific**. Rules must be followed accurately to insure compliance and protect your tax deferred status. CCCERA members who participate in an employer sponsored Deferred Compensation Plan (457) or who have tax-deferred funds in an account located at a previous employer, may want to consider this new flexibility in retirement planning.

What retirement plan contributions can I use for trustee-to-trustee transfer (direct rollover) into CCCERA?

You may use contributions from 457 retirement plans.

What permissive service purchases can I make with these transfers?

You can purchase *eligible* (certifiable) service credit in these categories: Time Prior to Membership, Public Service Time, Domestic Relations Order Redeposits, Redeposits, Leave of Absence and Pick-Ups. All service credit amounts must be verified.

Can I transfer my CCCERA contributions to a different tax-deferred retirement plan?

If you leave county or district service with less than 5 years' (vested) service, you may receive a refund of your contributions. To avoid paying tax on the refund, you may choose to transfer those funds to another appropriate retirement plan, such as a 401(k) or IRA for separated employees. You have 60 days to complete this transaction before tax penalties occur.

Vested CCCERA members who leave the system before retirement age have two options: to defer and leave contributions for a later benefit, or take a lump sum refund of all their contributions and interest.

Can I choose to make a transfer to CCCERA at any time?

You can decide to transfer funds **any time before retirement**, as long as the transaction is completed by your retirement date.

Do I have to transfer all the money from my other plan to CCCERA, in order to purchase service credit?

No. You can transfer part of your contributions, or all of your contributions. In fact, CCCERA will only accept the exact amount for purchase, with no overage. It's your choice to decide how much time you want to purchase. However, you cannot buy more time than you are eligible for (i.e. "air time"). **Buyer beware:** should the amount you choose to transfer exceed the purchase amount required by CCCERA, don't plan on tucking those "extra" funds under the mattress. If not used for transfer (rollover) the IRS will consider those funds a pre-retirement distribution. Income tax on deferred pre-tax contributions will immediately be levied, along with possible penalties.

What is the first step to take advantage of this new way to purchase service time?

Call the Retirement Office and speak with a retirement counselor. Your transfer (rollover) requires a cost estimate for the time you are planning to purchase, and a completed Direct Trustee-to-Trustee Transfer form, certified by a retirement counselor. You will also need to complete forms provided by your plan sponsor (your employer) and/or your financial institution.

After receiving your cost estimate and completing the Direct Trustee-to-Trustee Transfer form, members submit the form to the retirement plan sponsor who maintains the transferable funds, which might be your current or a former employer. You will then complete required "plan sponsor" forms. In the case of 457 plans, the employer will submit final paperwork to the financial institution for transfer processing and release of funds to CCCERA.

Portability Points:

- CCCERA will only accept transfers for the exact amount required to purchase service credit.

- Currently, **CCCERA only accepts rollovers/transfers for certain kinds of permissive service credit purchases with tax-deferred dollars. See page 1 for eligible service time categories.**

- Individual retirement plans may have different regulations, and may or may not accept, or provide for all qualified plan transfers.

- **As of this writing, transfers cannot be used to purchase service conversions, (i.e., Tier 2 service credit to Tier 3).**

- Be sure to consider all your options. A trustee-to-trustee transfer may not be the best use of your funds.

Terms you may find helpful:

Plan Sponsor

The agency (employer) that establishes and maintains the employee benefit plan. Example: Hartford 457 Deferrred Compensation Plan, sponsored by Contra Costa County.

Qualified Retirement Plan

A retirement plan approved by the Internal Revenue Service that meets the requirements of both form and operation, as detailed in the appropriate section of the tax code. Example: 401(k) plans meet the requirements of section 401 of the IRS Code.

Tax-deferred Contributions

Income tax on retirement plan contributions deducted from salary is not imposed until benefits are paid. Tax is *deferred* (postponed, delayed) until participants begin receiving benefits. Contributions paid with pre-tax dollars lower the amount of annual taxable income.

Direct Rollover (Trustee-to-Trustee Transfer)

A transfer of funds between two plans (such as a 457 plan sponsor and a 401(a) retirement plan) that passes directly from plan to plan. The plan participant (employee) has no access to the funds, thus eliminating possible tax liability.

Section 2:

Service Credit Purchases Using Payment Contracts

Why should I consider purchasing eligible service credit?

Additional service credit you purchase will increase the amount of your pension at time of retirement. Since CCCERA is a defined benefit plan, your pension is based on your age at retirement, final average salary, and total retirement service credit. The more years of service credit you have, the greater your benefit.

Purchases can be made with **pre-tax or post-tax dollars. Note:**

1) There are regulations that must be followed for either type of purchase.
2) There are advantages and disadvantages (discussed below) for each option.

Both methods can be used to purchase *eligible* time* in these categories:

Redeposit — Public Service/Military — Conversions — Time Prior to Membership — Leave of Absence

**See last pages for descriptions of these types of service time.*

HOWEVER:

1) **Adjustments can only be purchased with after-tax contributions.**
2) **Purchased prior public service and military service do not count toward meeting either the 10 year minimum service or the 5 year vesting requirements, and cannot be used to establish eligibility for a service, disability, or deferred retirement, or death benefit.**

Advantages to Pre-tax Dollars

Payment amounts are taken from your monthly pay check ***before*** taxes are figured. This lowers the amount reported for income tax purposes. You will have to pay "deferred" taxes at the time you take a benefit, but after retirement your income usually is less, lowering your overall tax rate.

POINTS TO CONSIDER WHEN CHOOSING PRE-TAX or POST-TAX PURCHASE CONTRACTS

Pre-tax Payments: Advantages/**Disadvantages**

- Reduce reportable income for tax purposes while you are working;
- Taxes are paid when you begin to take a retirement benefit;
- No limitations on the amount of service that can be purchased in any one year;
- **Contracts are irrevocable, regardless of whether your circumstances change;**
- **You cannot change the timing, amount, or stop the contributions for ANY reason; i.e., death, disability, etc.**
- **Pre-tax contracts cannot be switched to post-tax.**

Post-tax contributions:Advantages/**Disadvantages**

- After-tax contract timing or amounts can be changed, if you choose;
- Post-tax contracts can be switched to pre-tax; **one time only;**
- Contracts can be stopped completely;
- Purchase adjustments can be made with these funds;
- **Post-tax payments do not lower your current income for tax purposes.**

What payment options are available?

After you receive an estimate of the cost to purchase eligible service credit, you can choose from several payment options:

1) One lump sum payment for the full amount;
2) Monthly payroll deductions from your paycheck;
3) A combination of lump sum "down payment", then payroll deductions to complete the contract;
4) Transfer of funds from another eligible retirement plan. (This option is not available for service time conversions.)

How do these options work?

A lump sum payment pays the entire cost of converting or purchasing time with one payment of **after-tax funds**. You save the interest charged on a long-term contract with this option.

Monthly payroll deductions will be divided equally over the length of your purchase contract. Interest on the contract amount is figured into the total, so the total amount you pay will be greater than the lump sum option. You can choose to pay with either **pre- or post-tax dollars**.

A post**-tax lump sum payment** can pay part of your purchase costs, then the balance remaining on the contract can be deducted monthly from your payroll check, as either pre- or post-tax dollars. Interest will be charged on this remaining amount.

If you have **457 retirement plan funds**, you may be able to transfer them to purchase eligible service time with a lump-sum amount, either fulfilling your contract costs, or by making a partial payment and reducing your contractual amount. (You cannot convert time from Tier 2 to Tier 3 with 457 funds.)

How long can I take to complete the service credit purchase?

Most types of service can be purchased in any timeframe you choose, up to a maximum of five years. BUT there are some restrictions:

- The purchase term cannot exceed the length of time you are buying;
- All payroll deduction service contracts must be paid in full by your retirement date, or date of termination.
- You may be eligible to purchase service credit in a lump sum with after-tax dollars up to 120 days after your retirement date.

How is interest calculated for my payment contract?

In simple terms, there are 2 types of interest calculated on your purchase:

1) The cost of your service credit includes the interest your contributions would have earned, if they had been on deposit with CCCERA from the date you became a member to the date your purchase contract or lump sum payment commenced. If your purchase is a redeposit, interest is calculated from the date you withdrew your funds.

2) If you choose monthly payments, your monthly payroll deduction will be calculated using a projected semi-annual interest rate for the term of the contract. This rate is based on the actuarial interest rate assumption in effect at the time your contract is signed.

In brief:

- You will "make up" the interest that didn't accumulate on the time you are purchasing, to make your account whole;
- If you are making monthly payments, you will also be charged interest on the contracted funds, like a loan or financing agreement.

When will I receive credit for my purchase?

Service credit is posted to your account immediately if your payment is a lump sum. When purchasing by monthly payroll deduction, service credit is posted to your account when you have completed your contract obligation. (This crediting is on a pro-rata basis in the event of termination, the granting of a disability benefit, or death.) If you are redepositing previously withdrawn contributions and you terminate employment or are granted a disability retirement before your contract is complete, the service is not granted. All contributions and interest paid are refunded to you.

How do I get started?

Call the Retirement Office to request an estimate of costs to purchase eligible service credit. *(Due to the high volume of these requests, responses take about 6 months.)* A retirement counselor will compute this figure and notify you of the amount in writing. After you receive this letter, make an appointment with a counselor to discuss your personal options, legal provisions, and any limitations of your contract.

What happens if I receive a disability retirement, or I die before completing the payment contract?

For most types of service credit contracts, you (in the case of disability retirement) or your surviving beneficiary, may pay the balance remaining on the account within 30 days of the billing date, fulfilling the service purchase, *OR* CCCERA will prorate the contributions that were fully paid and credit your account for the appropriate months/years of service credit.

If you die while redepositing withdrawn contributions to restore prior membership, the restoration will not be granted, *unless your beneficiary spouse chooses to complete the redeposit by a lump sum payment*. All contributions received, including credited interest, will be refunded to your beneficiary or estate.

If you are granted a disability retirement while redepositing contributions, you may either pay off the contract balance within 30 days from the billing date to complete the service purchase, *OR* cease payments. If the contract is not paid off, the restoration will not be granted. All contributions paid on the contract, including credited interest, will be refunded.

What if I am on an unpaid leave of absence?

Payments can be suspended until you return to paid status.

Can I change or terminate my contract if I cannot complete the payments?

NO, not if you chose to pay your contract with **pre-tax dollars.** Even if you have a family hardship, illness or financial problem, the contract remains in force, as long as you receive a monthly check from your employer.

But, if you pay your contract with **after-tax dollars you CAN revise your contract terms.** If you terminate the contract before it is paid in full, CCCERA will not refund your contributions, but will prorate the amounts paid and credit your purchased service years/months accordingly.

Service Purchase Terms you may find helpful:

Redeposit

If you were a previous member of CCCERA, terminated employment, and took a refund of your contributions, you can choose to "replace" your contributions if you return to CCCERA membership at a later date. Redepositing "reinstates" your original service credit earned, increasing your retirement service credits. In order to make your account "whole," you must replace your contribution amounts, plus the interest the funds would have generated had the monies remained in your account. (Note: there is no time limit; you may choose this option any time you return to work. However, you must replace all the funds required; partial purchases are not allowed.

Military Time

Time you spent in military service may be purchased if:

- You were a CCCERA member when you left (resigned or took a leave of absence) to serve in the U.S. military; and
- You received an honorable discharge and re-entered CCCERA within 90 days of your return from the U.S.military.

Public Service

<u>Prior public service time with:</u>

- Federal, state, county, or city government and government agencies in California;
- Districts in Contra Costa County that do not participate in CCCERA;

<u>may be eligible for purchase if:</u>

- Your former public employer does not allow redeposit of contributions to their plan; and
- Reciprocity is not offered by your former employer; and
- Your service was prior to membership in CCCERA.

Military time and public service time DO increase the amount of your <u>retirement benefit</u>; they DO NOT count in meeting eligibility requirements for service or disability retirements.

Conversions
Members who have prior service in Tier 2 can choose to convert eligible service time to Tier 3. Tier 3 retirement benefits are higher, but the contribution rate is higher, as well. The cost will be calculated by comparing the total amount paid into the system under Tier 2 (both employer and employee) and what would have been paid under Tier 3. You pay the difference, plus interest.

Time Prior to Membership
County or District employees who were not members of CCCERA due to employment in ineligible positions or less than part-time schedules can purchase credit for this time before membership.

Leave of Absence
Paid leaves-of-absence usually include contributions from your continuing paycheck, thereby earning service credit. Up to 12 consecutive months of unpaid leave time may be purchasable after you return to active employment.

IN GENERAL,

The costs to purchase service fall into two categories, **depending on the type of eligible credit:**

1)You must pay your contributions + interest that would have accrued during the time periods you are purchasing,

OR

2) You must pay your contributions + your employer's contributions + interest on both amounts,

to establish the appropriate service credits. Please give the Retirement Office a call for specific information.

CCCERA does not offer tax advice. Retirement counselors can assist you with basic information on 457 plan transfers and purchases as they relate to our system. Consult a professional tax advisor or financial planner to explore all your options.

More information on these new changes to retirement contribution portability is available in Publication 575 and 590 from the Internal Revenue Service. On the net, www.IRS.gov features a searchable database on many tax issues. To go straight to the source, type “United States Tax Code” in your browser search window.

For further information, please Contact the Retirement Office at:
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