

**SERVICE PURCHASE AUTHORIZATIONS  
FOR PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT SYSTEMS**

**Public Employee  
Retirement Commission**

**March 1997**



**SERVICE PURCHASE AUTHORIZATIONS  
FOR PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT SYSTEMS**

**PUBLIC EMPLOYEE RETIREMENT COMMISSION  
COMMONWEALTH OF PENNSYLVANIA**

Issued June 1989

Revised March 1997



# PUBLIC EMPLOYEE RETIREMENT COMMISSION

## **Gubernatorial Appointees**

Mr. Paul D. Halliwell, A.S.A., F.C.A.

*Chairman*

President

Halliwell Consulting Group

Mr. A. Carville Foster, Jr.

*Vice-Chairman*

Retired Legislator

Dr. J. Richard Aronson

William L. Clayton Professor

of Business & Economics

Lehigh University

Mr. Albert L. Hydeman, Jr.

Retired Director

Economic & Community Development

City of York

Mr. William A. Murray

Executive Vice-President

The Packard Press

## **Legislative Appointees**

Senator Jay Costa, Jr.

District 43, Allegheny County

Representative James C. Lynch

District 65, Forest, McKean,

and Warren Counties

Senator Harold F. Mowery, Jr.

District 31, Cumberland, Perry,

and York Counties

Representative Terry E. VanHorne

District 54, Allegheny and

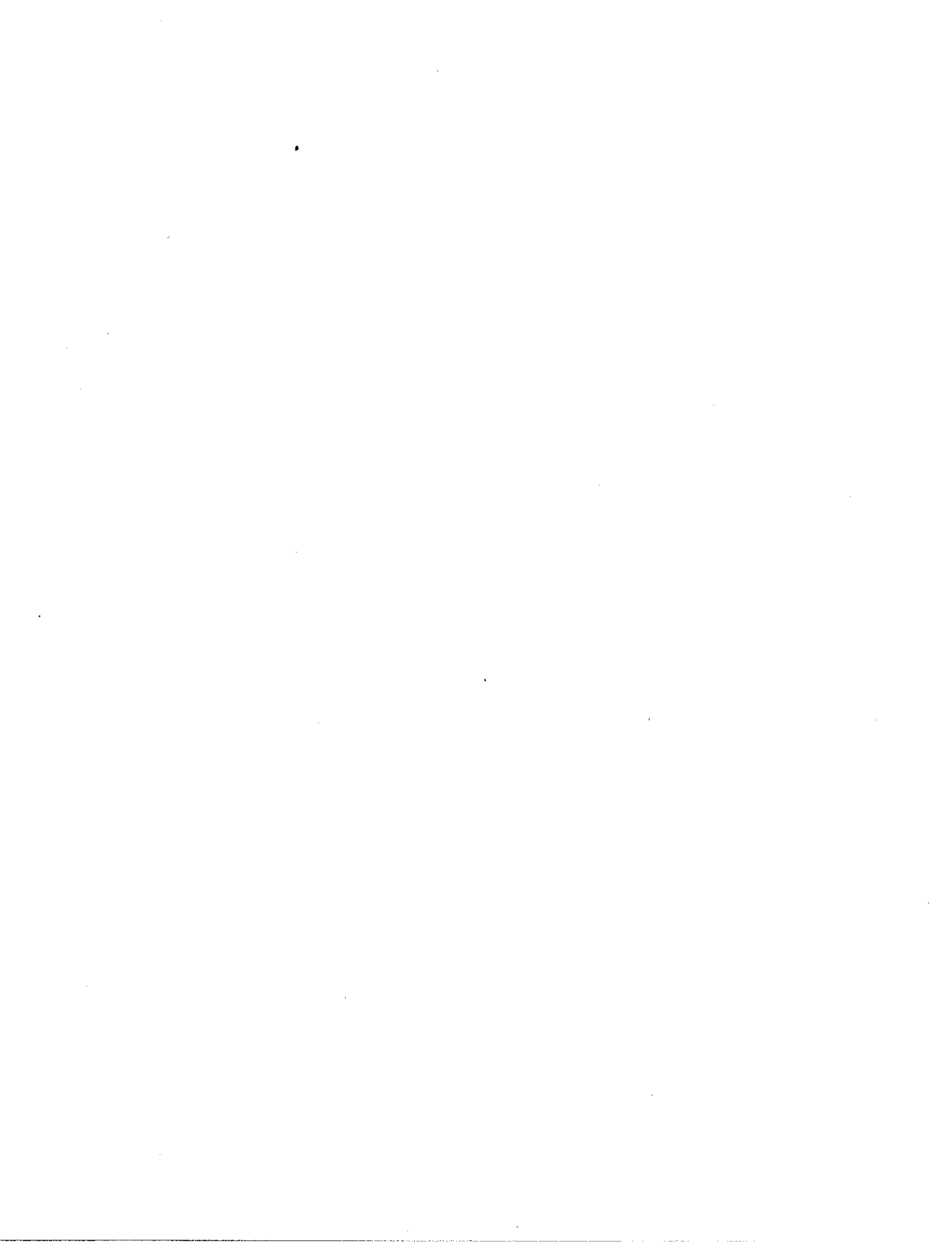
Westmoreland Counties



Executive Director: Anthony W. Salomone

Commission Office: 510 Finance Building  
P.O. Box 1429  
Harrisburg, PA 17105-1429

(717) 783-6100



## *Preface*

*The following report is an updated edition of the original report issued in June of 1989. This edition reflects numerous minor revisions to the original report that were necessitated by the passage of time. It also reflects one substantive change in Chapter III of the original report concerned with the recommended method for determining the purchase amount when payment of both the employee and employer contributions is appropriate.*







COMMONWEALTH OF PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT COMMISSION

HARRISBURG

17120

March 1997

To: Members of the Pennsylvania General Assembly  
and Governor Ridge

The Commission first studied the issue of service purchase authorizations in the Commonwealth's public employee retirement systems in 1989. The report resulting from that study established the policy framework within which the Commission has analyzed more than twenty service purchase authorization proposals. These analyses were prepared in conjunction with the Commission's mandated duty to review and attach actuarial notes to committee-reported legislation affecting public employee retirement systems.

Over 100 bills to authorize service purchases have been introduced in the General Assembly since the Commission's report on service purchase authorizations was issued in 1989. Even though service purchases are appropriate in only a few limited situations, bills to authorize them have consistently represented about 10 percent of the retirement bills introduced in each session. This frequency of legislative proposals clearly demonstrates a continuing need for policy guidelines on the issue. Since the policy established in the 1989 report continues to be valid, the Commission believes reissuing the report is the most appropriate way to affirm the previously adopted policy guidelines.

Reissuing the Commission's 1989 report on the subject of service purchase authorizations at this time permits new policymakers to be initially acquainted with the report and long-time policymakers to be re-acquainted with the report. The Commission believes that the familiarity of policymakers with the report is advantageous for the maintenance of sound public pension policy on service purchase authorizations in the Commonwealth. Reissuing the report also allows for the report's descriptive narrative to be updated to reflect the four additional service purchase authorizations enacted since 1989, and it permits the procedure recommended in the report for determining the purchase amount in certain instances to be revised in order to facilitate its use in legislation.

The recommendations set forth in the enclosed report form the framework for the Commission's review of legislative proposals for service purchase authorizations in public employee retirement systems. The Commission hopes that policymakers will consider both the report and the Commission staff as technical resources in the development of legislation to authorize service purchases.

On behalf of the Commission, I hope that you find the accompanying report helpful as you consider this important aspect of public employee retirement policy.

Sincerely,

A handwritten signature in cursive script that reads "Paul D. Halliwell".

Paul D. Halliwell  
Chairman



# TABLE OF CONTENTS

<b>PREFACE</b> .....	i
<b>LETTER OF TRANSMITTAL</b> .....	iii
<b>INTRODUCTION</b> .....	vii
<b>EXECUTIVE SUMMARY</b> .....	ix
<b>I. GENERAL INFORMATION</b> .....	1
Background .....	1
Review of Current Law .....	2
Policy Issues Associated with Service Purchase Authorizations .....	5
<b>II. PUBLIC POLICY CONSIDERATIONS     IN AUTHORIZING SERVICE PURCHASES</b> .....	7
<b>Discussion</b> .....	7
• Compensation for Time Spent in Military Service .....	7
• Equity in Employment Transfer .....	8
• Restoration of Service Credits Following Break in Service .....	10
• Retroactive Recognition of Service for Equity Purpose .....	10
• Retirement Benefit Portability .....	11
• Indirect Benefit of Experience, Education or Training .....	12
<b>Recommendations</b> .....	13
<b>III. DETERMINATION OF AMOUNT     AND SOURCE OF PURCHASE PAYMENT</b> .....	17
<b>Discussion</b> .....	17
• Member Contributions .....	17
• Employer Cost .....	20
<b>Recommendations</b> .....	23

# TABLE OF CONTENTS

(Cont'd)

## IV. STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS ..... 29

### **Discussion** ..... 29

- Limits on Length of Service Purchased ..... 29
- Limits on Time for Electing Purchase ..... 30
- Time Limit for Payment of Contributions ..... 31
- Limit on Number of Purchases ..... 33
- Restriction on Withdrawal of Purchase Payment ..... 33
- Restriction on Duplication of Service Credit ..... 34

### **Recommendations** ..... 34

## APPENDIX

### Appendix: Table of U.S. Average Wages by Year ..... 41

## INTRODUCTION

Under Act 66 of 1981, the Public Employee Retirement Commission is responsible for undertaking studies of retirement subjects and formulating principles and objectives applicable to public employee retirement policy. The Commission also has the duty to review and report on legislation proposing changes in public employee retirement systems. This analysis of legislation may be done either at the Commission's own initiative or upon request from the legislative or the executive branch. In the case of public pension legislation under active consideration by the General Assembly, the Commission has a legislatively-mandated role to attach an actuarial note before the legislation may receive second consideration in either house of the General Assembly.

Among the most frequently recurring subjects in the proposed legislation which the Commission has been requested to review since 1982 are authorizations to purchase service credits in public employee retirement systems for various types of currently noncreditable service. In order to establish a consistent policy framework within which to evaluate these proposals, the Commission undertook this study to analyze the issues associated with service purchase authorizations and to formulate policy recommendations relating to criteria for authorizing service purchases and standards for structuring the purchase transaction.

In offering its recommendations on the subject of service purchase authorizations in public employee retirement systems, the Commission does not intend that the service purchase authorizations already contained in the Commonwealth's retirement statutes be subjected to the recommended criteria and standards in order to determine whether the existing provisions should be retained, discarded or restructured. The Commission considers the existing provisions to be an expression of the public policy of the Commonwealth and reviewed many of the purchase of service provisions in an attempt to distill the public policy principles and objectives which these provisions represent. The recommendations contained in this study, therefore, are intended to be prospective in nature, providing a policy framework for the Commission in reviewing the many proposals presented to it on this subject and providing guidance to the policymakers in the executive and legislative branches in discussing, developing and adopting future changes in purchase of service credit provisions.



## EXECUTIVE SUMMARY

### GENERAL INFORMATION

Many public employee defined benefit pension plans permit members to receive credit for limited categories of service with another employer or previously noncredited service with the current employer. The additional service credits gained through a service purchase enable an employee to receive an increased retirement benefit or earlier eligibility for retirement. The service purchase authorizations existing under current law are limited in number and are restricted to certain well-defined situations. However, policymakers are frequently asked to consider proposals to allow the purchase of additional categories of prior service. In considering these proposals policymakers must determine what types of prior service should be authorized to be purchased and how the additional benefit should be funded and administered. This report analyzes these issues and sets forth the Commission's policy recommendations as guidance in the development and adoption of future service purchase authorizations.

### PUBLIC POLICY CONSIDERATIONS IN AUTHORIZING SERVICE PURCHASES

**The Commission recommends in this report that the use of service purchase authorizations be restricted to a very few situations where needed to provide equity in pension rights for public employees.** The only situations for which the Commission considers the use of service purchase authorizations to be appropriate are those involving: military service, transfers of governmental function, the reinstatement of service credits following a break in service and remedying inequities caused by employer actions. The report discusses special considerations applicable to each of these categories of service purchases.

Although service purchases are frequently proposed for the purpose of providing retirement credit portability on an ad hoc basis, the Commission considers this to be a piecemeal and arbitrary approach to the issue of public pension plan portability. The Commission recommends that a uniform portability mechanism be developed to address situations where policymakers determine that pension credit portability among public employee pension systems is desirable.

The Commission also advises against the use of service purchase authorizations to recognize past education, training or work experience. The recognition of these activities departs from the basic purpose of a public employee retirement system of providing benefits based on service to the public employer.

**DETERMINATION OF AMOUNT AND SOURCE OF PURCHASE PAYMENT**

The addition of any new authorization for the purchase of previously uncreditable service involves retirement system cost. This cost must be borne by the employee eligible to purchase the service, by the former employer (in the case of a transfer of governmental function), by the current employer, or by some combination of these sources. The method recommended in the report for determining the additional pension cost associated with a service purchase is independent of actuarial assumptions and actuarial methods and calculates a cost which is reasonably related to the value of the benefit improvement being purchased.

The recommended allocation of the cost among the potential sources for payment differs depending on the type of service purchase involved. For most types of service purchases, it is recommended that the employee pay an amount representing the member contributions which would have been made during the period of service being purchased and that the employer cost become the obligation of the retirement system recognizing the service. For two types of service purchases, those involving military service completed prior to public employment and transferred governmental service previously performed on a self-employment basis, it is suggested that the purchasing member pay an amount representing both member and employer cost. For transfers of governmental function where prior public employee retirement system coverage was provided, the Commission recommends a method for determining the amount of assets to be transferred from the retirement system previously covering a transferred employee to the retirement system newly recognizing the employee's prior service.

**STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS**

The Commission recommends that limits be set on various aspects of the service purchase in order to assure fair and consistent administration and proper financing of the benefit. The report discusses and makes recommendations for limits on the length of service permitted to be purchased, the time for exercising the purchase option, the time within which the purchase payment must be made and the number of purchases applicable to any one period of eligible service. Where the purchase payment includes an amount representing employer cost, the Commission recommends restricting the withdrawal of that amount at retirement. The Commission also recommends that employees be required to waive entitlement to any other public employee retirement system credit for service being purchased.



## I. GENERAL INFORMATION

---

### BACKGROUND

Most public employers in Pennsylvania maintain defined-benefit pension plans where the benefit at retirement is based on a pre-determined formula, usually a set percentage of the final average salary or the accrual of a percentage of final average salary for each year of credited service with the public employer. Eligibility requirements for receiving full benefits under these plans are typically based on the attainment of a specified age and the crediting of a specified number of years of service with the public employer. In many cases, early retirement provisions allow employees to retire and receive a reduced benefit at a younger age or with less credited service than required for full retirement.

In all of these defined benefit plans, the number of years of credited service plays an important role in determining the value of the pension benefit. For a retirement system which uses a formula based on a benefit accrual rate, the number of years of credited service has a direct impact on the benefit amount. Examples of plans using this type of benefit formula are the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) where the pension benefit (maximum single life annuity) for members eligible for full retirement is two percent of final average salary for each year of credited service. The retirement systems of most counties also use a benefit accrual rate to calculate the defined benefit portion of the retirement benefit. In addition to directly increasing the amount of the pension benefit under these plans, the crediting of additional years of service may lead to earlier eligibility for vesting, normal retirement or early retirement. This increases the ultimate value of the retirement benefit by lengthening the time over which the benefit will be payable. For a retirement system which promises a benefit equal to a set percentage of the final average salary, the crediting of additional years of service does not affect the basic pension amount but, as with benefit accrual plans, may increase the value of the benefit by accelerating accessibility to normal or early retirement. For plans offering "service increments" (an additional benefit amount for each year of service in excess of a specified minimum), added years of credited service will increase this portion of the retirement benefit. Many municipal retirement systems use this

type of benefit formula. For example, under Act 600 police pension plans, a police officer meeting the age and service requirements for full retirement receives a basic retirement benefit of 50 percent of final average salary. These plans may also offer a service increment for each year of service in excess of 25 years, providing up to an additional \$100 per month.

Many public employee defined benefit pension plans permit members to receive credit for limited categories of service with another employer or previously noncredited service with the current employer. For employees with past service in the authorized categories, these provisions are of great value, enhancing the retirement benefit and/or accelerating eligibility for retirement. Because of the value of these provisions to public employees, proposals to authorize the purchase of additional categories of prior service are frequently presented to the Commonwealth's policymakers. The addition of any new authorization for the purchase of previously uncreditable service involves retirement system cost. This cost must be borne by the employee eligible to purchase the service, by the former employer (in the case of a transfer of governmental function), by the current employer, or by some combination of these sources. In cases where some or all of the cost of a service purchase authorization is to be borne by the current employer, the cost may be paid as an additional employer contribution equal to the value of the increased benefit or may be recognized as an increase in the unfunded actuarial accrued liability of the retirement system.

In order to assure that future proposals for service purchase authorizations are evaluated by policymakers in a consistent manner which considers the basic purpose of a public employee retirement system, results in equitable treatment of the affected public employees and provides a rational and fair method of funding and administering the benefit, the Commission has undertaken this study to analyze and develop policy recommendations on this subject.

#### **REVIEW OF CURRENT LAW**

In the past 15 years, the Public Employee Retirement Commission has reviewed numerous legislative proposals to authorize the purchase of prior service in public employee retirement systems. Most of these bills have pertained to the State Employees' Retirement System and the Public School Employees' Retirement System. The frequency with which such proposals have been brought before the Commission and the General Assembly has created the impression among observers in this field that members of public employee retirement systems in Pennsylvania may purchase credit for a broad array of prior service. In reality, however, few of these provisions are enacted. The existing statutory authorizations to purchase service credit in public employee retirement systems are limited in number and are restricted to certain well-defined situations.

In general, the existing provisions cover service to meet an urgent national need, service in a governmental operation that is transferred, interrupted service, or public education service. Urgent national need has been either military service (intervening or nonintervening) or employees loaned to the federal government (for example during the recovery from the Great Depression). Service in a governmental operation that is transferred has included county health departments, county school boards, school librarians, county nurses, personal staff of appellate court judges, and highway systems. Interrupted service has included leaves without pay and those who left service either for another job or retirement and then returned. Public education has included public education service in other states and with the federal government.

The following briefly summarizes the existing statutory provisions authorizing service purchases under public employee retirement systems.

Military Code. In its chapter on military leave of absence, the Military Code provides for the retirement rights of individuals on military leaves of absence for intervening military service. The public employee either can continue to make contributions to the retirement system at the employee contribution rate that would have been used had the employee not been in military service or within six months of returning to civilian public employment exercise a right to purchase this service. If the service is purchased after the fact, the employee contributes the amount that the employee would have contributed had the employee not been in military service and must make these contributions over a period of time that is not longer than the period of military service and that begins on the date of return to civilian public employment. The public employer bears its usual costs. Many of the individual public employee retirement system statutes contain similar language.

State Employees' Retirement Code. Members of the State Employees' Retirement System currently are able to purchase credit for the following types of service: approved leaves of absence without pay; intervening and nonintervening military service; service as public educators in another state or with the federal government; service as a temporary federal employee assigned to a Commonwealth agency; service in a community college under the Community College Act; service in the Cadet Nurse Corps during World War II; service with a government agency other than the Commonwealth which employment was terminated because of the transfer by law of the administration of the service or of the entire agency to the Commonwealth; and service as a justice of the peace prior to January 1970. Such purchases of service credit for prior service have been a long standing part of the system, with a number of the current

provisions dating back in substantially similar form to the 1923 statute. The statute in effect from 1923 to 1959 had provisions for intervening military service, service as an employee loaned to the federal government, and service as a Commonwealth employee prior to the establishment or extension of SERS coverage. The statute in effect from 1959 to 1974 had provisions for intervening military service, service as an employee of a county health department, service in a Commonwealth acquired institution, service with a Commonwealth acquired highway system, service as an employee loaned to the federal government, service from 1933 to 1946 with the Federal Employment Services Agency, and service in public education in another state or with the federal government.

Public School Employees' Retirement Code. Members of the Public School Employees' Retirement System currently are able to purchase credit for the following types of service: approved leaves of absence without pay; intervening and nonintervening military service; service in public education in another state or with the federal government, including service in a Community College under the Community College Act; service with a county school board where administrative duties or the agency was transferred to some other governmental entity with PSERS coverage; service as a county nurse; service for time spent on a mandated maternity leave prior to 1973; and service in the Cadet Nurse Corps during World War II. Such purchases of service credit for prior service have been a long standing part of the system, with a number of the current provisions dating back in substantially similar form to the 1917 statute. The statute in effect from 1917 to 1959 had provisions for intervening military service and service in public education in another state or with the federal government. The statute in effect from 1959 to 1975 had provisions for intervening military service, service in public education in another state or with the federal government, service in summer school teaching prior to PSERS membership, period of sabbatical leave, and approved leave of absence.

Pennsylvania Municipal Retirement Law. Public employees of local governments that participate in the Pennsylvania Municipal Retirement System may receive service credit for intervening military service; may receive credit for up to five years of certain nonintervening military service, if the employee arranges to pay both the employee's share and the employer's share, with interest; and may have retirement benefits for previous service restored upon return to the service of the same local government, if the employee restores withdrawn accumulated deductions.

County Pension Law. The County Pension Law, which covers the public employees of all counties of the second class A through eighth class, contains provisions relating to the reemployment of a retired employee; provisions governing admission of a county officer to the retirement system after the beginning of that officer's term of office; provisions for the restoration of annuity rights of a former employee who returns to county service and restores that employee's withdrawn accumulated deductions; and provisions for the receipt of credit for both intervening and nonintervening military service with payment by the county of both employee and employer contributions for the period of intervening military service and with payment by the employee of both employee and employer contributions for the period of nonintervening military service.

Third Class Cities. Under The Third Class City Code, a police officer or a paid firefighter may receive, with the approval of city council, credit for up to five years of nonintervening military service, if the employee arranges to pay both the employee's contributions and the city's contributions for the period of military service. Under the optional third class city retirement law, a nonuniformed employee may receive credit for intervening military service.

Municipal Police Pension Law. A police officer of a borough, town, or township under the Municipal Police Pension Law (Act 600) who has at least six months service and then enters military service is entitled to service credit for the intervening military service if the police officer returns to municipal police service within six months of separation from military service. The purchase payment options are the same as those under the Military Code. Service credit may be provided for up to five years of military service that occurred prior to employment as a police officer with a specified employee contribution required.

Other Statutes. There are many other statutes relating to public employee retirement systems, but these either have no specific purchase of service credit provisions or are local government specific to the Cities of Philadelphia, Pittsburgh, and Scranton and the County of Allegheny.

#### **POLICY ISSUES ASSOCIATED WITH SERVICE PURCHASE AUTHORIZATIONS**

In the following chapters of this report, the Commission discusses and sets forth its policy recommendations on the subject of service purchase authorizations in public employee pension plans. The recommendations address the following major policy issues associated with this subject:

*PUBLIC POLICY CONSIDERATIONS IN AUTHORIZING SERVICE PURCHASES* - Discusses situations under which it is reasonable from a public pension policy viewpoint to authorize service purchases and suggests standards for determining such situations.

*DETERMINATION OF THE AMOUNT AND SOURCE OF PURCHASE PAYMENT* - Discusses the manner in which the additional pension cost associated with a purchase of service credit should be determined and how this cost should be allocated among the potential sources for payment — the employee, the current public employer and, in some cases, the prior public employer.

*STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS* - Discusses the various issues that the policymakers should consider in structuring any authorization to purchase service. The issues addressed are whether there should be limitations on the length of service purchased, the time for exercising the purchase option and the time for making the purchase payment, whether the number of purchases should be limited, whether the subsequent withdrawal of purchase payments should be prohibited, and whether duplication of credit for the same service should be prevented.

## II. PUBLIC POLICY CONSIDERATIONS IN AUTHORIZING SERVICE PURCHASES

---

### DISCUSSION

Purchase of service provisions for Pennsylvania public employee pension plans have been enacted or proposed to achieve a number of purposes. In some situations the authorization to purchase or receive credit for prior service represents the best way to achieve the intended purpose. In other situations, the need or desire of public employees to obtain credit in their current retirement system for past service with another employer should be addressed by means other than service purchase authorizations. The following identifies the basic purposes for which purchase of service provisions are typically sought and discusses which purposes are best addressed through service purchase authorizations and which may be better addressed through another mechanism.

Compensation For Time Spent In Military Service: One of the most common purposes for which authorizations to purchase past service have been provided is to compensate employees for periods of military service which interrupted or delayed the commencement of a career with the public employer. The affected individuals are those who committed a period of their lives to help meet the recognized national need to maintain a prepared military and who later either returned to or became Commonwealth, school district or local government employees. In order to assure that these individuals are not held at a disadvantage in their employment rights in comparison with those whose services were not provided to meet this compelling national need, the period of military service is commonly permitted to be recognized and credited under the public employee retirement system. As the formulator of national public policy, Congress has required that all employees serving on intervening military service (service which interrupted employment) must be considered as having been on furlough or leave of absence during that time, a policy that the General Assembly also has adopted in the Military Code. In addition to this required credit for intervening military service, the General Assembly has permitted the purchase of nonintervening military service (service completed prior to commencement of employment) in some of the public employee retirement systems in the Commonwealth. Because most public employee pension plans have already addressed the issue of purchase of service credits for military service, current legislative proposals relating to this issue usually relate to the funding and

structuring of this benefit rather than with new authorizations to purchase military service.

Equity In Employment Transfer: Purchase of service provisions are commonly used as a means of providing equitable or fair treatment in pension plan coverage for employees whose public employment situation is affected by a transfer of governmental function. Past transfers of governmental functions where service purchases have been authorized include county health department employees, county school board employees, local highway system employees, federal air quality control employees and personal staff of appellate court judges, all of whom are now considered to be Commonwealth employees and who have been permitted to receive credit in SERS for their service prior to the transfer of their function to the State government. Other incidents of involuntary transfers of public employees have involved a group of employees of a school library which was transferred to a county library system and the transfer of a group of county nurses from county employment to school district employment. An issue likely to arise in the future involves the pension plan coverage of common pleas court employees some or all of whom may in the future be considered to be Commonwealth employees based on the ruling of the Pennsylvania Supreme Court that the proper functioning of the unified judicial system requires that the common pleas courts be financed by the Commonwealth rather than the counties.

In most cases of a transfer of governmental function, the issue of equity or fairness is easily judged, and it is clear that the employees' earlier service should be recognized as the equivalent of service with the current employer by permitting a purchase of service credit. These are situations where the change in employment is beyond the discretion of the employee, where there has been no fundamental change in the nature of duties, lines of supervision, standards of performance or basis for compensation and where public retirement system benefit coverage was part of the employee's compensation package. Where these conditions do not exist, the question of an equity argument favoring the proposed service purchase is much more complex. The task for the policymakers in such situations is to determine whether the past service involved the performance of an essentially equivalent governmental function which was restructured, rather than discontinued and replaced, in the governmental reorganization and whether equity requires that the employees serving that function be considered to have served a continuous career for which public employee retirement system coverage should be provided.



In cases where an equity argument for recognition of past service is determined to exist, but the conditions of employment applicable to the past service and the current service are not comparable, special care must be taken in structuring the service purchase transaction. In such situations, the usual methods for determining the amount of service to be recognized and the purchase payment amount do not function appropriately and the purchase transaction must be specifically designed to account for individual differences among the employees eligible to purchase the prior service in order to achieve equitable treatment. For example, the recognition of past service on a year for year basis may not be appropriate in cases where some of the employees eligible to purchase the service performed on a part-time basis and some performed on a full-time basis. In addition, in a self-employment, fee-paid situation, any method for determining a purchase payment amount which is based on compensation during the period of prior service will be difficult to administer due to the unavailability of past employment records and will be unlikely to achieve equity due to wide variations in compensation amounts. For these reasons, any service purchase authorizations involving significant differences in conditions of employment between the prior service and the current service will require a unique design in order to reflect the specific circumstances of the prior service.

Nearly all of the service purchase authorizations involving a transfer of governmental function which the Commission has reviewed have involved transfers which have already transpired and which have taken place in the absence of any consideration of pension plan coverage of the affected employees. In a number of cases, many years had passed since the transfer of governmental function and the issue of pension coverage for the affected employees remained unresolved. When there is a lengthy interval between the transfer of a governmental function and the consideration of purchase of service credit for the past service of the transferred employees, a burden is placed on the policymakers to reconstruct the circumstances of the employment transfer in order to determine whether an equity argument exists for authorizing a service purchase. Ideally, at the time that any transfer of governmental function is considered, the public pension plan coverage and other employment issues impacting on the transferred employees should be resolved concurrently with the action effecting the transfer. In cases where this does not occur, it would be reasonable as a matter of public policy to impose a limit on the amount of time transpiring between the transfer of function and the resolution of the issue of past service recognition. In the absence of a resolution of the issue within the specified time period, a request for a service purchase authorization could be

reasonably dismissed on the presumption that no compelling equity argument exists for the service purchase. This would insure that any proposals for service purchase authorizations applicable to future governmental function transfers would be brought forth and considered in a timely manner.

Restoration Of Service Credits Following A Break In Service: Public employee retirement systems frequently offer the opportunity for members who terminate membership and later return to service with the same public employer to reinstate the previously credited service. This type of service purchase is typically accomplished through repayment by the member of the amount of any refunded member contributions, accompanied by interest at a specified rate to the date of the service purchase. The authorization to reinstate prior service with the same public employer assures that the employee's total period of service to the employer will be recognized in determining vesting rights, eligibility to retire and amount of pension benefit. Most laws governing Pennsylvania public employee pension systems adequately address situations where there is a break and return to service with the same public employer. However, for some municipal pension plans the State enabling legislation governing the plan does not include any specific provisions for the restoration of service credits following a break in service. In some cases, this situation may be governed by a provision in the plan document. In the absence of a plan document provision, the matter may be subject to arbitrary administrative practice. The establishment of a uniform practice among municipal retirement systems for the reinstatement of prior service with the same public employer through a service purchase authorization would serve the public policy intent of fair and consistent treatment of public employees.

Retroactive Recognition Of Service For Equity Purpose: Service purchase provisions may be used to remedy inequities created when an employee's rights in the retirement system are determined to have been detrimentally impacted by administrative actions later judged to have been inappropriate or in error. Although these are not commonly occurring situations and it is not possible to anticipate the exact nature of all such situations which may occur, all involve circumstances under which failure to recognize a period of service as creditable service under the public employee retirement system represented unfair or unequal treatment of the public employees. The period of unrecognized service may entail a break in service caused by employer action, an employer imposed leave of absence or failure by the employer to enroll eligible employees in the retirement system. The equity question arises when it is subsequently determined that the cause for the break in service was unwarranted, the

imposition of the leave of absence was not appropriate public policy or the failure to enroll an employee in the retirement system was an administrative error and not in conformance with the applicable state law. Examples of such circumstances include employer-mandated maternity leaves required by some school districts in the past and the failure of a county to include a group of nursing home employees under the county pension system. In such cases, where no adequate administrative remedy can be fashioned, service purchase authorizations may be sought as a means of restoring the pension rights of the affected public employees.

Retirement Benefit Portability: Purchase of service provisions are frequently sought as a means of providing retirement benefit portability among public employee retirement systems in cases of voluntary employment mobility. Examples of proposals in the 1987-1988 session of the General Assembly which sought to achieve this purpose were a proposed amendment to the Municipal Police Pension Law (Act 600) to authorize the purchase of prior service with the police force of another borough, town or township and a proposed amendment to the State Employees' Retirement Code to authorize SERS members to purchase service credits for prior service with a county, city, borough, town or township. Although there may be need or desirability to provide greater opportunities for pension credit portability among Pennsylvania public employee pension plans, the authorization to purchase prior service does not represent a well-designed mechanism to achieve this goal. The use of service purchase authorizations represents a piecemeal approach to the issue of portability. Because proposals for purchase of service authorizations are considered in the absence of any comprehensive review of the role of pension portability as a component of public employee personnel policy, policymakers are forced to make arbitrary judgments concerning which types of service should be permitted to be transportable among public employee retirement systems and which should not. The use of service purchase authorizations as a substitute for a portability mechanism inherently results in inequitable treatment among public employees, with those having greater access to policymakers or presenting their cases more vigorously being more likely to have their past service recognized.

In addition to being a piecemeal and arbitrary approach to the issue of pension portability, the use of purchase of service authorizations as a general portability mechanism is a poor approach from a pension plan financing standpoint. If less than the full actuarial cost is required as the purchase price to be paid by the member, the purchase transaction represents a windfall for the member and the

retirement system incurs an increase in its unfunded actuarial accrued liability. If the full actuarial cost is required from the member, the purchase payment amount frequently tends to be prohibitively expensive.

Additional problems in using service purchase authorizations as a substitute for a general portability mechanism are presented by the wide diversity in pension plan benefit structures, vesting provisions and member contribution requirements among Pennsylvania's public employee retirement systems. This diversity, which is most pronounced among the more than 2,700 municipal pension systems in the Commonwealth, also presents a substantial obstacle in fashioning a portability mechanism for public employees. Public employees in the field of education enjoy greater pension benefit portability than those in other fields of employment. This is accomplished through the use of a single pension plan for employees of all of the Commonwealth's 500 school districts and, in the case of public employees in the field of higher education, through optional membership in an independent defined contribution pension plan which affords nationwide portability among higher education institutions offering the same coverage. The issue of portability among the Commonwealth's municipal pension systems is one of the focuses of the Commission's study on the structure and administration of local government pension systems in Pennsylvania, which was issued in December of 1992.

Indirect Benefit Of Experience, Education Or Training: Another purpose for which purchase of service provisions have been sought by public employees is to obtain recognition of prior periods of employment, education or training which provided an indirect benefit to the current employer through the acquisition of skills and experience which ultimately enhanced the value of the employee's services. Examples of purchase of service provisions directed to this purpose include the enactment authorizing the purchase of World War II cadet nurse service (a federal nurse training program) by SERS and PSERS members and a legislative proposal to authorize PSERS members to purchase credit for work experience required for permanent certification of vocational teachers.

This purpose represents a variation of the portability concept but extends well beyond the purpose of providing intrastate portability of public employee retirement system service credits to potentially encompass any education, training and work experience leading up to the public employment. Because the relationship of the past service which the employee desires to purchase and the current service with the public employer is often rather tenuous, a service purchase for past education, training or experience frequently serves no public pension policy goals but is merely used as a means of allowing certain members

to acquire a benefit from the public employee retirement system with potentially minimum service to the public employer. This represents a departure from the conventional view of the role of a public employee retirement system as an employment-related benefit maintained principally in the interest of those devoting a substantial career to public service.

The use of service purchase authorizations on an ad hoc basis to recognize past education, training or experience carries with it many of the same problems associated with the use of service purchase as a portability mechanism. These proposals force policymakers to make arbitrary determinations concerning what service should be purchasable. Granting service purchases on this basis results in inequitable treatment of public employees. In addition, it is extremely difficult to devise a method of financing these purchases which is fair to both the employer and the employees.

#### RECOMMENDATIONS

The Public Employee Retirement Commission recommends the following with regard to circumstances under which public policy should permit service purchase authorizations in public employee pension plans and standards for determining such situations:

- A. THAT FUTURE AUTHORIZATIONS TO PURCHASE PRIOR SERVICE IN PUBLIC EMPLOYEE PENSION SYSTEMS BE LIMITED TO SITUATIONS INVOLVING THE FOLLOWING PURPOSES:
  1. TO PROVIDE COMPENSATION FOR TIME SPENT IN MILITARY SERVICE;
  2. TO ESTABLISH EQUITY IN PENSION RIGHTS FOR PUBLIC EMPLOYEES SUBJECT TO AN INVOLUNTARY TRANSFER OF GOVERNMENTAL FUNCTION;
  3. TO PROVIDE FOR THE RESTORATION OF SERVICE CREDITS FOLLOWING AN INTERRUPTION AND RETURN TO SERVICE WITH THE SAME PUBLIC EMPLOYER;
  4. TO PROVIDE RETROACTIVE RECOGNITION OF SERVICE TO REMEDY INEQUITIES CREATED BY EMPLOYER ACTIONS.
- B. THAT SERVICE PURCHASE AUTHORIZATIONS FOR THE PURPOSE OF PROVIDING COMPENSATION TO PUBLIC EMPLOYEES FOR TIME SPENT IN MILITARY SERVICE BE FUNDED AND STRUCTURED IN ACCORDANCE WITH THE RECOMMENDATIONS IN THIS REPORT.

**DISCUSSION (Cont'd)**

---

- C. THAT FUTURE SERVICE PURCHASE AUTHORIZATIONS FOR THE PURPOSE OF ESTABLISHING EQUITY IN PENSION RIGHTS FOR PUBLIC EMPLOYEES SUBJECT TO AN INVOLUNTARY TRANSFER OF GOVERNMENTAL FUNCTION BE SUBJECT TO THE FOLLOWING CONSIDERATIONS:
1. WHERE THE CHANGE IN EMPLOYMENT IS BEYOND THE DISCRETION OF THE EMPLOYEE AND THERE HAS BEEN NO FUNDAMENTAL CHANGE IN THE NATURE OF DUTIES, LINES OF SUPERVISION, STANDARDS OF PERFORMANCE OR BASIS FOR COMPENSATION AND WHERE PUBLIC RETIREMENT SYSTEM BENEFIT COVERAGE WAS PART OF THE EMPLOYEE'S COMPENSATION PACKAGE, THAT THE EMPLOYEES' EARLIER SERVICE BE RECOGNIZED AS THE EQUIVALENT OF SERVICE WITH THE CURRENT EMPLOYER BY PERMITTING A PURCHASE OF SERVICE CREDIT;
  2. WHERE THE ABOVE CONDITIONS DO NOT EXIST, THAT THE QUESTION OF AUTHORIZING THE SERVICE PURCHASE BE BASED ON A DETERMINATION BY THE POLICYMAKERS OF WHETHER THE PAST SERVICE INVOLVED THE PERFORMANCE OF AN ESSENTIALLY EQUIVALENT GOVERNMENTAL FUNCTION WHICH WAS RESTRUCTURED, RATHER THAN BEING DISCONTINUED AND REPLACED, AS PART OF A GOVERNMENTAL REORGANIZATION AND WHETHER EQUITY REQUIRES THAT THE EMPLOYEES SERVING THAT FUNCTION BE CONSIDERED TO HAVE SERVED A CONTINUOUS CAREER FOR WHICH PUBLIC EMPLOYEE RETIREMENT SYSTEM COVERAGE SHOULD BE PROVIDED;
  3. THAT, WHERE POSSIBLE, THE PUBLIC PENSION PLAN COVERAGE OF EMPLOYEES INVOLVED IN A TRANSFER OF GOVERNMENTAL FUNCTION BE ADDRESSED CONCURRENTLY WITH THE ACTION EFFECTING THE TRANSFER AND THAT, IN FUTURE CASES WHERE THE ISSUE OF PAST SERVICE RECOGNITION IS NOT BROUGHT FORTH AND RESOLVED WITHIN THREE YEARS OF THE TRANSFER OF GOVERNMENTAL FUNCTION, NO FURTHER CONSIDERATION BE GIVEN TO ANY REQUESTS FOR SERVICE PURCHASE AUTHORIZATIONS ON THE PRESUMPTION THAT AN ADEQUATE OPPORTUNITY FOR THE PRESENTATION OF ANY COMPELLING EQUITY ARGUMENT FOR THE SERVICE PURCHASE HAS TRANSPIRED.
- D. THAT FOR PUBLIC EMPLOYEE RETIREMENT SYSTEMS WHERE NO PROVISIONS EXIST IN STATE LAW PROVIDING FOR THE RESTORATION OF SERVICE CREDITS FOLLOWING A BREAK IN SERVICE, A UNIFORM PRACTICE BE ESTABLISHED THROUGH THE ENACTMENT OF STATE LEGISLATION.
- E. THAT THE USE OF SERVICE PURCHASE AUTHORIZATIONS FOR THE PURPOSE OF REMEDYING INEQUITIES CREATED BY EMPLOYER ACTIONS BE LIMITED TO SITUATIONS WHERE NO ADEQUATE ADMINISTRATIVE REMEDY CAN BE FASHIONED AND THAT SUCH SERVICE PURCHASES BE FUNDED AND STRUCTURED IN ACCORDANCE WITH THE RECOMMENDATIONS IN THIS REPORT.

- F. THAT SERVICE PURCHASE AUTHORIZATIONS NOT BE EMPLOYED AS A MEANS OF PROVIDING PORTABILITY ON AN AD HOC BASIS BETWEEN PUBLIC EMPLOYEE RETIREMENT SYSTEMS AND THAT, TO THE EXTENT THAT PUBLIC POLICY FAVORS PENSION CREDIT PORTABILITY AMONG PUBLIC EMPLOYEE RETIREMENT SYSTEMS, THIS OBJECTIVE BE ACCOMPLISHED BY MEANS OF A UNIFORM PORTABILITY MECHANISM WHICH PROVIDES EQUITABLE TREATMENT OF BOTH PUBLIC EMPLOYEES AND PUBLIC EMPLOYERS.
- G. THAT SERVICE PURCHASE AUTHORIZATIONS NOT BE EMPLOYED AS A MEANS OF RECOGNIZING THE PAST EDUCATION, TRAINING OR WORK EXPERIENCE OF PUBLIC EMPLOYEES BASED ON THE PUBLIC POLICY DETERMINATION THAT THE RECOGNITION OF THESE ACTIVITIES REPRESENTS A DEPARTURE FROM THE CONVENTIONALLY RECOGNIZED ROLE OF A PUBLIC EMPLOYEE RETIREMENT SYSTEM AS AN EMPLOYMENT-RELATED BENEFIT MAINTAINED PRINCIPALLY IN THE INTEREST OF THOSE DEVOTING A SUBSTANTIAL CAREER TO PUBLIC SERVICE.





### III. DETERMINATION OF AMOUNT AND SOURCE OF PURCHASE PAYMENT

---

#### DISCUSSION

Service purchase authorizations enable eligible members of public employee retirement systems to receive credit toward retirement for previously uncreditable service. Because the additional credited service increases the value of the benefits which these members will be entitled to receive upon retirement, there is retirement system cost associated with the service purchase. The cost of the increased benefits attributable to a service purchase may be borne by the employee eligible to purchase the service, by the former employer (in the case of a transfer of governmental function), by the current employer, or by some combination of these sources. In cases where some or all of the cost of a service purchase authorization is to become the responsibility of the current employer, the cost may be paid as an additional employer contribution equal to the value of the increased benefit or may be recognized as an increase in the unfunded actuarial accrued liability of the retirement system.

In determining the contribution required to be made in connection with a service purchase and the allocation of the required contribution among the potential sources for payment, it is important that any actuarial calculations used in purchase payment determinations be performed on a consistent actuarial basis and that the cost be allocated in a manner which is fair to the employee purchasing the service, to the public employer recognizing the service and, where applicable, to the former public employee retirement system from which the employee was transferred. It is also important to consider the different purposes for which service purchases are authorized, since the most appropriate method for establishing the purchase payment amount and determining who should pay may differ depending on the type of service purchase involved.

Member Contributions: Since the objective of the service purchase is to make the purchased service the equivalent of other creditable service in the retirement system, an amount representing member contributions should be part of the payment for purchasing service in any contributory retirement system. The member contribution amount may be calculated in different ways depending on the circumstances of the service purchase. An amount representing interest which the contributions would have earned had they been assets of the system during the applicable period should also be included as part of the member

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

contribution portion of the purchase payment. Each of the methods discussed below for determining member contribution payments provides for the inclusion of interest at the "member contribution interest rate." This term refers to the historic interest rates credited by the pension fund to member contributions for purposes of refunds on nonvested terminations. In cases where the service purchase is applicable to a plan where no interest is credited to member contributions, it is suggested that a rate be used that represents the average of the discount rates applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December over the 20-year period preceding the date of purchase. For interest computation purposes, it is recommended that contributions for a year be assumed to be made in the middle of the year.

The simplest method for determining the amount of member contributions which should be paid in connection with a service purchase applies to a purchase that restores service credits following an interruption and return to service with the same employer. In such cases, the member may simply restore the withdrawn amount with interest at the member contribution interest rate from the date of withdrawal to the date of repayment.

The appropriate member contribution amount is also easily determined in cases where the eligible employees received actual compensation from the public employer during the period of purchasable service but were not, by reason of administrative error, enrolled in the pension plan during that time. Under these circumstances, the appropriate member payment would be based on the actual contributions which would have been made if the member had been enrolled in the plan during the period of uncredited service with interest at the member contribution interest rate from the date the contributions would have been made to the date of payment.

For the purchase of credit for periods of intervening service, where the member was compensated both prior to and following, but not during, the period of service being purchased, a determination must be made of the appropriate salary base to use in the calculation of the required contribution amount. Examples of this type of service purchase include intervening military service and uncompensated leaves of absence later determined, for reason of equity, to be creditable service. In such cases the compensation applicable during the period of intervening service can be based on the average of the compensation at the time of leaving service and the compensation upon recommencement of service. The required member payment would then be determined by applying

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

the applicable member contribution rate to the compensation base as established above and including interest at the member contribution interest rate, assuming a normal schedule of member contributions during the period of purchasable service, from the date of assumed contribution to the date of payment.

For the purchase of service occurring before employment by the current public employer, such as nonintervening military service and transferred governmental service, the compensation base for the member contribution payment can be determined by starting with the annualized salary at commencement of service with the current employer and projecting this salary backward to the appropriate prior years by using a recognized national index of salary projection. The United States average salary index used by the Social Security Administration in calculating social security primary insurance amounts is suggested. This table from 1951 to 1994 is presented as the Appendix to this report. Each year, the Social Security Administration updates this table by adding another year to the index. The index is used to first determine the ratio which the annualized beginning compensation with the current employer bears to the average compensation indicated in the index for the corresponding year. That ratio is then applied to the average compensation applicable to each year of service to be purchased to determine the compensation base for that year. Assume, for example, that the first year of employment was 1980 and the initial salary was \$15,000. The index indicates that the average compensation for 1980 was \$12,513.46. The initial salary then was 1.1987 times the average compensation ( $\$15,000.00 / \$12,513.46 = 1.1987$ ). If the years of service to be purchased are 1970 and 1971, the compensation bases applicable to those years can be determined by multiplying the index's 1970 average compensation (\$6,186.24) and 1971 average compensation (\$6,497.08) by 1.1987. The resulting compensation bases are \$7,415.45 for 1970 and \$7,788.05 for 1971. Once this compensation base is established, the required member contributions can be determined by applying the applicable member contribution rate to the compensation and including interest at the member contribution interest rate from the date of assumed contribution to the date of payment, in a manner similar to a purchase of intervening service.

If the service purchase is applicable to a transfer of governmental function in which public employee retirement system coverage was provided by the prior employer, it may be considered appropriate to limit the required member contribution payment to the amount of accumulated member contributions plus interest which the member is entitled to receive as a refund from the prior

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

plan. Limiting the payment to the refundable amount would prevent the purchase payment requirement from serving as a deterrent to purchasing the service and would insure that employees subject to an involuntary change in employment would not be detrimentally impacted by the change in retirement system coverage.

It should be noted that the above methods for determining member payments for purchasing service are appropriate only in cases where the member's obligation is limited to payment of the member contribution portion of the cost of the purchased service. In situations where the member is to contribute the employer cost as well, the determination of the whole amount to be contributed is important and the determination of the member contribution portion is of no consequence. In such cases, the member's obligation can be determined in the manner suggested in the following discussion concerning instances where the purchase payment made by the member is to include amounts representing both member and employer cost.

Employer Cost: The additional credited service obtained by virtue of a service purchase will cause an increase in the actuarial accrued liability of the retirement system exceeding the amount of member contributions paid in connection with the service purchase. The funding of this additional liability may differ depending on the purpose of the service purchase. For many service purchases it may be most appropriate for the retirement system recognizing the service to recognize and fund the employer portion of the liability attributable to the service purchase in the same manner that other increases in actuarial accrued liability are recognized and funded. For others, however, it may be more appropriate for a payment representing the employer portion of the cost attributable to the service purchase to be made as part of the purchase transaction, either by the employee purchasing the service or, in the case of a transfer of governmental function where public employee retirement system coverage was previously provided, by a transfer of assets of the retirement system from which the employee was transferred.

There are two situations where it may be considered appropriate to require that the purchase payment made by the member include an amount representing the employer cost attributable to the additional credited service. In the case of nonintervening military service, the service being purchased typically has not provided a direct benefit to the public employer. In many cases, a substantial time interval has transpired between the period of military service and service with the current employer. In order to prevent the purchase transaction from

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

simply representing a windfall for the member at the expense of the public employer, payment by the employee of both the member and employer portions of the cost of the service purchase may be required. The other situation where the member may be required to make a payment representing employer cost involves a transfer of governmental function where the previous service was performed on a self-employment basis. Where compensation was provided on a fee for services basis, it can generally be assumed that the fee structure provided a level of compensation adequate to accommodate a full-time service provider's need to establish a plan for retirement income protection, including amounts in lieu of employer-provided retirement coverage. In order to receive credit in a governmental retirement system based on this service, the payment of an amount representing employer retirement cost can therefore be considered a reasonable requirement.

While it is possible to consider the effect of various actuarial assumptions and actuarial cost methods and ancillary benefits in determining the required purchase payment, there are advantages to adopting a simple method that is reasonably related to the actual benefit improvement being purchased. For this purpose, a determination of the increased benefit obtained by virtue of the purchase can be made by calculating the difference between the annual pension assuming credit for the service to be purchased and the annual pension excluding credit for the service to be purchased. In more exact terms, the increased benefit attributable to the purchased service can be determined as the difference between:

1. The annual amount of a standard single life annuity beginning at the earliest possible superannuation age, calculated assuming no future salary increases and including credit for the service to be purchased, and
2. The annual amount of a standard single life annuity beginning at the earliest possible superannuation age, calculated assuming no future salary increases and excluding credit for the service to be purchased.

Once the increased benefit amount is determined in this manner, the full actuarial cost of the increased benefit attributable to the purchased service can be calculated as the actuarial present value of a deferred annuity equal to the amount of the increased benefit that commences at the earliest possible superannuation age and is payable for life. The actuarial present value is calculated using standard real rate actuarial assumptions as follows: a

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

preretirement interest assumption of 1.5 percent, a postretirement interest assumption of 4 percent, no preretirement mortality assumptions and standard postretirement mortality assumptions. In calculating the increased benefit amount and its actuarial present value, the earliest possible superannuation age is assumed to be the later of the age at which the member will first become eligible for superannuation retirement or the current attained age of the member.

Due to the complexity involved, the calculations required to determine the full actuarial cost of the increased benefit should be performed and certified by the actuary of the retirement system. Once the full actuarial cost of the increased benefit is determined, the employer portion of the cost may be determined by subtracting the appropriate member contribution amount. The determination of the member contribution amount for service purchases is examined in the preceding discussion on member contributions.

For service purchases involving a transfer of governmental function where the eligible employees were covered by a public employee retirement system prior to the transfer, it would be reasonable to require that some or all of the employer cost attributable to the service purchase be paid through a transfer of assets from the system providing the prior coverage. The system from which the members have been transferred experiences a reduction in liability since it is no longer necessary to recognize the credited service of the transferred employees. Pension plan assets which have been accumulated to cover the employer portion of the liability for the accrued service of these members can be transferred to the public employee retirement system newly recognizing this service without imposing any undue hardship on the system from which the members are transferred. Due to differences in benefit structures between the plan transferring the service and the plan recognizing the transferred service, the value of the accrued service may not be equal under the two plans. In addition, differences between the plans in member contribution requirements will affect the relative value of the employer funded portion of the liability. It is, therefore, important to specify the method for calculating the amount of assets required to be transferred in connection with this type of service purchase prior to, or in conjunction with, the actual transfer of the governmental function.

Because of the wide variety of benefit structures and other plan characteristics, it is not possible to develop any one detailed procedure for calculating the assets to be transferred in instances where functions are transferred from one public employer to another. However, the same procedure that was previously

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

discussed in connection with the determination of employer cost is recommended as the basic framework for developing the specific procedure to be utilized. Using this method, the retirement system formerly covering the transferred employe would calculate the full actuarial present value of the benefit being dropped and then subtract the amount of any refundable member contribution account that was intended to finance a portion of that benefit. The resulting net actuarial present value of the benefit being dropped would represent the maximum amount to be transferred to the retirement system currently covering the employee. To determine the actual amount to be transferred, the retirement system assuming the liabilities for the employee's benefit would perform a corresponding calculation to determine the gross actuarial value of the benefit being assumed and then subtract the amount of the member contributions required to be paid by the member in connection with the service purchase to establish the net actuarial value of the benefit being assumed. The actual amount to be transferred from the former retirement system to the current retirement system would be the smaller of the two net actuarial values.

**RECOMMENDATIONS**

The Commission recommends the following with regard to the determination of the amount and source of purchase payments applicable to service purchase authorizations in public employee retirement systems:

- A. THAT AN AMOUNT REPRESENTING MEMBER CONTRIBUTIONS BE REQUIRED TO BE PAID BY A MEMBER PURCHASING SERVICE CREDIT IN ANY CONTRIBUTORY RETIREMENT SYSTEM.
  
- B. THAT THE AMOUNT OF THE REQUIRED MEMBER CONTRIBUTION BE DETERMINED AS FOLLOWS:
  1. FOR A SERVICE PURCHASE APPLICABLE TO THE RESTORATION OF SERVICE CREDITS FOLLOWING AN INTERRUPTION AND RETURN TO SERVICE WITH THE SAME EMPLOYER, THAT THE MEMBER RESTORE THE WITHDRAWN AMOUNT WITH INTEREST FROM THE DATE OF WITHDRAWAL TO THE DATE OF REPAYMENT.
  
  2. FOR A SERVICE PURCHASE APPLICABLE TO A PERIOD OF SERVICE DURING WHICH THE ELIGIBLE EMPLOYEE WAS COMPENSATED BY THE PUBLIC EMPLOYER BUT WAS NOT ENROLLED IN THE PENSION PLAN, THAT THE MEMBER CONTRIBUTION AMOUNT BE EQUAL TO THE ACTUAL CONTRIBUTIONS WHICH WOULD HAVE BEEN MADE IF THE MEMBER HAD BEEN ENROLLED IN THE PLAN DURING THE PERIOD OF UNCREDITED SERVICE WITH

**DETERMINATION OF AMOUNT  
AND SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

INTEREST FROM THE DATE THE CONTRIBUTIONS WOULD HAVE BEEN MADE TO THE DATE OF PAYMENT.

3. FOR THE PURCHASE OF CREDIT FOR A PERIOD OF INTERVENING SERVICE, WHERE THE MEMBER WAS COMPENSATED BY THE PUBLIC EMPLOYER BOTH IMMEDIATELY PRECEDING AND FOLLOWING THE PERIOD OF SERVICE BEING PURCHASED, THAT THE MEMBER CONTRIBUTION AMOUNT BE DETERMINED BY:

A. ESTABLISHING THE COMPENSATION BASE FOR THE PERIOD OF PURCHASABLE SERVICE AS THE AVERAGE OF THE COMPENSATION IMMEDIATELY PRIOR TO THE PERIOD OF SERVICE BEING PURCHASED AND THE COMPENSATION UPON RECOMMENCEMENT OF SERVICE;

B. MULTIPLYING THE MEMBER CONTRIBUTION RATE FOR THE PLAN BY THE COMPENSATION BASE ESTABLISHED AS ABOVE; AND

C. ADDING INTEREST, ASSUMING A NORMAL SCHEDULE OF MEMBER CONTRIBUTIONS DURING THE PERIOD OF PURCHASABLE SERVICE, FROM THE DATE OF ASSUMED CONTRIBUTION TO THE DATE OF PAYMENT.

4. FOR THE PURCHASE OF CREDIT FOR SERVICE OCCURRING BEFORE EMPLOYMENT WITH THE CURRENT PUBLIC EMPLOYER, THAT THE MEMBER CONTRIBUTION AMOUNT BE DETERMINED BY:

A. ESTABLISHING THE COMPENSATION BASE FOR EACH YEAR OF PURCHASABLE SERVICE AS FOLLOWS:

I. CALCULATE THE RATIO OF THE ANNUALIZED BEGINNING COMPENSATION WITH THE CURRENT EMPLOYER TO THE AVERAGE WAGE FOR THE CORRESPONDING YEAR AS INDICATED ON THE SOCIAL SECURITY ADMINISTRATION'S INDEX OF UNITED STATE AVERAGE WAGES (PRESENTED AS THE APPENDIX TO THIS REPORT); AND

II. MULTIPLY THE AVERAGE WAGE FOR EACH YEAR OF PURCHASABLE SERVICE, AS INDICATED ON THE SAME INDEX, BY THE CALCULATED RATIO.

B. APPLYING THE PLAN'S MEMBER CONTRIBUTION RATE TO THE COMPENSATION BASE ESTABLISHED AS ABOVE FOR EACH YEAR OF PURCHASABLE SERVICE; AND



**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

- C. ADDING INTEREST FROM THE DATE OF ASSUMED CONTRIBUTION TO THE DATE OF PAYMENT.
- C. THAT THE INTEREST PAYABLE ON MEMBER CONTRIBUTION AMOUNTS BE AT THE "MEMBER CONTRIBUTION INTEREST RATE" (THE HISTORIC INTEREST RATES CREDITED BY THE PENSION FUND TO MEMBER CONTRIBUTIONS FOR PURPOSES OF REFUNDS ON NONVESTED TERMINATIONS) OR, FOR PLANS NOT CREDITING INTEREST TO MEMBER CONTRIBUTIONS, AT A RATE THAT REPRESENTS THE AVERAGE OF THE DISCOUNT RATES APPLICABLE TO SIX-MONTH TREASURY BILLS ISSUED BY THE DEPARTMENT OF TREASURY OF THE UNITED STATES AS OF THE LAST BUSINESS DAY IN DECEMBER OVER THE 20-YEAR PERIOD PRECEDING THE DATE OF PURCHASE AND THAT, FOR INTEREST COMPUTATION PURPOSES, CONTRIBUTIONS FOR A YEAR BE ASSUMED TO BE MADE IN THE MIDDLE OF THE YEAR.
- D. THAT THE ADDITIONAL EMPLOYER COST ASSOCIATED WITH THE PURCHASE OF THE FOLLOWING TYPES OF SERVICE BE RECOGNIZED AND FUNDED IN THE SAME MANNER THAT OTHER INCREASES IN ACTUARIAL ACCRUED LIABILITY ATTRIBUTABLE TO ACTUARIAL EXPERIENCE LOSSES ARE RECOGNIZED AND FUNDED BY THE APPLICABLE PENSION PLAN:
1. INTERVENING MILITARY SERVICE;
  2. PRIOR SERVICE SUBJECT TO AN INVOLUNTARY TRANSFER OF GOVERNMENTAL FUNCTION WHERE NO PRIOR PUBLIC EMPLOYEE RETIREMENT SYSTEM COVERAGE WAS PROVIDED AND WHERE THE SERVICE WAS NOT PERFORMED ON A SELF-EMPLOYMENT BASIS;
  3. PRIOR SERVICE WITH THE SAME EMPLOYER WHERE THERE HAS BEEN AN INTERRUPTION AND RETURN TO SERVICE; AND
  4. SERVICE PREVIOUSLY UNRECOGNIZED DUE TO EMPLOYER ERROR OR INAPPROPRIATE ADMINISTRATIVE ACTIONS.
- E. THAT AN AMOUNT REPRESENTING BOTH MEMBER AND EMPLOYER COST BE REQUIRED TO BE PAID BY A MEMBER PURCHASING ONE OF THE FOLLOWING TYPES OF SERVICE:
1. NONINTERVENING MILITARY SERVICE; OR
  2. SERVICE IN CONNECTION WITH A TRANSFER OF GOVERNMENTAL FUNCTION WHERE THE PREVIOUS SERVICE WAS PERFORMED ON A SELF-EMPLOYMENT BASIS.
- F. THAT THE CONTRIBUTION REPRESENTING BOTH EMPLOYEE AND EMPLOYER COST PAYABLE BY THE MEMBER FOR THE PURCHASE OF NONINTERVENING MILITARY SERVICE OR SERVICE

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

PERFORMED ON A SELF-EMPLOYED BASIS PRIOR TO A GOVERNMENTAL TRANSFER BE THE FULL ACTUARIAL PRESENT VALUE OF THE INCREASED BENEFIT CALCULATED AS FOLLOWS:

1. DETERMINE THE DIFFERENCE BETWEEN (i) THE ANNUAL AMOUNT OF A STANDARD SINGLE LIFE ANNUITY, BEGINNING AT THE EARLIEST POSSIBLE SUPERANNUATION AGE, CALCULATED ASSUMING NO FUTURE SALARY INCREASES AND INCLUDING CREDIT FOR THE SERVICE TO BE PURCHASED AND (ii) THE ANNUAL AMOUNT OF A STANDARD SINGLE LIFE ANNUITY, BEGINNING AT THE EARLIEST POSSIBLE SUPERANNUATION AGE, CALCULATED ASSUMING NO FUTURE SALARY INCREASES AND EXCLUDING CREDIT FOR THE SERVICE TO BE PURCHASED.
  
  2. USING STANDARD ACTUARIAL ASSUMPTIONS AS FOLLOWS: A PRERETIREMENT INTEREST ASSUMPTION OF 1.5 PERCENT, A POSTRETIREMENT INTEREST ASSUMPTION OF 4 PERCENT, NO PRERETIREMENT MORTALITY ASSUMPTIONS AND STANDARD POSTRETIREMENT MORTALITY ASSUMPTIONS, DETERMINE THE ACTUARIAL PRESENT VALUE OF AN ANNUITY EQUAL TO THE AMOUNT OF THE INCREASED BENEFIT CALCULATED IN STEP ONE, ASSUMING THAT THE LIFETIME ANNUITY COMMENCES AT THE EARLIEST POSSIBLE SUPERANNUATION AGE AND THAT THE EARLIEST POSSIBLE SUPERANNUATION AGE IS THE LATER OF THE AGE AT WHICH THE MEMBER WILL FIRST BECOME ELIGIBLE FOR SUPERANNUATION RETIREMENT OR THE CURRENT ATTAINED AGE OF THE MEMBER.
- G. THAT FOR A SERVICE PURCHASE IN CONNECTION WITH A TRANSFER OF GOVERNMENTAL FUNCTION WHERE PRIOR PUBLIC EMPLOYEE RETIREMENT SYSTEM COVERAGE WAS PROVIDED, A CONTRIBUTION REPRESENTING ALL OR A PORTION OF THE EMPLOYER COST ATTRIBUTABLE TO THE SERVICE PURCHASE BE PAYABLE THROUGH A TRANSFER OF ASSETS FROM THE PUBLIC EMPLOYEE RETIREMENT SYSTEM FROM WHICH THE EMPLOYEE WAS TRANSFERRED.
- H. THAT THE AMOUNT OF ASSETS REQUIRED TO BE TRANSFERRED FROM THE PUBLIC EMPLOYEE RETIREMENT SYSTEM PREVIOUSLY COVERING THE TRANSFERRED EMPLOYEE TO THE PUBLIC EMPLOYEE RETIREMENT SYSTEM CURRENTLY COVERING THE TRANSFERRED EMPLOYEE BE THE LESSER OF THE EMPLOYER ACTUARIAL COST OF THE BENEFIT BEING DROPPED BY THE PRIOR SYSTEM AND THE EMPLOYER ACTUARIAL COST OF THE BENEFIT BEING ASSUMED BY THE CURRENT SYSTEM.
- I. THAT THE DETERMINATION OF EMPLOYER ACTUARIAL COST BY EACH OF THE RETIREMENT SYSTEMS INVOLVED IN A GOVERNMENTAL TRANSFER BE CALCULATED TO PRODUCE AMOUNTS WHICH ARE REASONABLY RELATED TO THE VALUE OF THE ACTUAL BENEFIT BEING DROPPED OR ASSUMED USING THE SAME ACTUARIAL METHODOLOGY AND ASSUMPTIONS.

**DETERMINATION OF AMOUNT AND  
SOURCE OF PURCHASE PAYMENT (Cont'd)**

---

- J. THAT THE ACTUARIAL METHODOLOGY AND ASSUMPTIONS EMPLOYED BY BOTH RETIREMENT SYSTEMS TO DETERMINE THE EMPLOYER ACTUARIAL COST OF THE BENEFIT PROVIDE FOR:
1. THE DETERMINATION OF THE BENEFIT AMOUNT ATTRIBUTABLE TO THE SERVICE CREDIT BEING DROPPED OR ADDED ASSUMING NO SALARY INCREASES AND RETIREMENT AT THE EARLIEST POSSIBLE SUPERANNUATION AGE OR AT THE CURRENT ATTAINED AGE, WHICHEVER IS LATER.
  2. THE CALCULATION OF THE ACTUARIAL PRESENT VALUE OF THE BENEFIT AMOUNT AS A STANDARD SINGLE LIFE ANNUITY PAYABLE AT THE EARLIEST POSSIBLE SUPERANNUATION AGE OR THE CURRENT ATTAINED AGE, IF LATER, USING A PRERETIREMENT INTEREST ASSUMPTION OF 1.5 PERCENT, A POSTRETIREMENT INTEREST ASSUMPTION OF 4 PERCENT, NO PRERETIREMENT MORTALITY ASSUMPTIONS AND STANDARD POSTRETIREMENT MORTALITY ASSUMPTIONS.
  3. THE SUBTRACTION OF THE AMOUNT OF THE ACCUMULATED MEMBER CONTRIBUTIONS WITH INTEREST THAT IS REFUNDABLE OR PAYABLE AND INTENDED TO FINANCE A PORTION OF THE BENEFIT FROM THE ACTUARIAL PRESENT VALUE OF THE BENEFIT AMOUNT TO DETERMINE THE EMPLOYER ACTUARIAL COST OF THE BENEFIT ATTRIBUTABLE TO THE SERVICE CREDIT BEING DROPPED OR ADDED.



## **IV. STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS**

---

### **DISCUSSION**

In addition to determining the appropriate purchase payment amount and the source of the purchase payment, a number of issues concerning the structuring of service purchase authorizations should be considered. The issues to be addressed are whether there should be limitations on the length of service purchased, the time for exercising the purchase option and the time for making the purchase payment, whether the number of purchases should be limited, whether the subsequent withdrawal of purchase payments should be prohibited, and whether duplication of credit for the same service should be prevented.

Limits On Length Of Service Purchased: A limit on the length of service which may be purchased in connection with a service purchase authorization serves to assure that a public employee's retirement benefit will be based principally on the amount of time served with the employer providing the benefit. In the absence of any such limit, some public employees may be able to purchase virtually all of the service credit required for vesting or for superannuation retirement and become eligible to receive a retirement benefit from an employer to whom they provided an insignificant period of service.

A limit on the length of service authorized to be purchased may be set in a number of ways. The limit may be based on a specified portion of the service required for vesting under the public employee retirement plan, on a specified portion of the service required for superannuation retirement or on all or a portion of the employee's years of credited service with the public employer offering the service purchase. The limit may also be set as a specific number of years based on the judgement of the policymakers concerning what is a reasonable period of purchasable service. In some cases, a combination of limits may be used. For example, educator members of the State Employees' Retirement System purchasing credit for service in a public school in another state or with the federal government are limited to the lesser of ten years or the period of service with SERS as an educator. Regardless of how the limit is set, the actual period of eligible prior service always serves as an absolute limit on the amount of service which may be purchased.

If service purchase authorizations are used by public employee pension systems in a wide variety of circumstances, including situations involving service not closely related to the employee's current service, limits on the length of time which may be purchased offer an important safeguard against the granting of pension benefits based almost entirely on service provided to another employer. If, on the other hand, the use of service purchase authorizations is restricted to a very few situations where needed to provide equity in pension rights for public employees, the need for these limits is significantly reduced.

The Commission recommends in this report that future service purchase authorizations be limited to situations involving military service, transfers of governmental function, the reinstatement of service credits following a break in service and remedying inequities caused by employer actions. For military service purchases, a limit on the amount of service which may be purchased is a useful restriction to avoid obligating a public employer to recognize an unreasonably lengthy period of voluntary military service. In the case of service purchase authorizations associated with governmental transfers, the reinstatement of prior service with the same employer, or remedying inequities caused by employer actions, the equity purpose would be more adequately served by permitting the entire period of prior service to be credited.

Limits On Time For Electing Purchase: Purchase of service provisions under a public employee retirement system apply to all members currently employed and having eligible past service at the time the purchase is authorized. Depending on the type of past service authorized to be purchased, the provisions may also apply to employees entering service with the public employer in the future with eligible past service. Typically, purchase of service provisions involving transfers of governmental function apply only to employees in service at the time of the governmental transfer and purchase of service authorizations for other purposes are enacted as permanently available options for current and future employees. A significant policy consideration in connection with the authorization to purchase prior service is whether there should be a limitation on the time within which an employee is permitted to exercise the purchase option.

Many of the existing service purchase provisions in the laws governing Pennsylvania's public employee retirement systems permit the exercise of the purchase option at any time during the member's employment. Where this is permitted, employees routinely defer electing to purchase the service until there is a certainty that they will receive an eventual benefit from the pension fund

and delay making any contributions associated with the service purchase until the latest opportunity. The Commission has, in considering legislative proposals pertaining to service purchases, identified various problems associated with this procedure from an actuarial funding perspective. The general actuarial rule concerning purchasing credit for prior service is that as the employee making the purchase grows older and is more certain of receiving a retirement benefit the liability associated with the purchase increases. The later a service purchase occurs in a person's working career, the greater the relative value of the benefit obtained by the purchase is.

The imposition of a time limit on the exercise of the service purchase option serves to limit the potential actuarial liability associated with the purchase of prior service. The timely exercise of the purchase option enables more appropriate actuarial funding of the benefit increase attributable to the purchased service by increasing the accuracy of the data concerning the amount of service on which the employee's pension will eventually be based. In addition, to the extent to which assets are required to be contributed in connection with the service purchase by the employee, the former public employer, or both, the interest earned on these assets becomes an additional source of funding for the benefit increase.

Where a service purchase is authorized in connection with a transfer of governmental function and the employees involved in the transfer were covered by a public pension plan in their prior employment, there is additional incentive from a public pension plan funding perspective in settling the details of the purchase transaction in as timely a manner as possible. In such cases, all potentially eligible employees are immediately known. Any member contributions required in connection with the service purchase are readily available in lump sum, either through direct transfer from the former public employee retirement system or by refund to the employee with immediate redeposit in the pension fund of the new employer. If there are employer contributions to be transferred between pension plans in connection with the service purchase, the timely completion of this aspect of the service purchase will enable both of the retirement systems involved in the transfer to reflect the impact of the transfer in their actuarial calculations as early as possible.

Time Limit For Payment Of Contributions: Another policy consideration in connection with service purchase authorizations is whether contributions required for the purchased service should begin immediately upon election of the purchase option or should be permitted to be deferred until a later time.

Policymakers must also determine whether to require that contributions be made in lump sum or whether installment payments over a specified period of time should be allowed.

In the previous discussion concerning whether there should be a time limit on the exercise of the option to purchase prior service, the actuarial funding advantages of requiring timely exercise of the purchase option were identified. Unless any contributions payable in connection with the service purchase are required to be begun immediately upon election of the purchase option, a significant portion of this funding advantage is not realized. To the extent that required contributions are deferred, the opportunity for investment income to serve as a source of funding for the additional benefit accrued by virtue of the service purchase is reduced.

For purposes of determining whether required contributions should be payable in lump sum or installment payments, it is useful to draw a distinction between service purchases involving a transfer of governmental function where there was prior public pension plan coverage and service purchases for other purposes. If the assets required to be contributed by the employee in connection with a service purchase are, at the time of the service purchase, either held by the prior employer as accumulated member deductions or held by the employee as recently refunded member contributions, it would be reasonable to require that the amount required for the service purchase be deposited in the current public employee retirement system in lump sum. If, on the other hand, there are no prior member contributions available to be applied to the purchase payment, a requirement for a lump sum contribution could present an unwarranted obstacle to the purchase of service. In such cases, it would be reasonable to allow a schedule of installment payments which does not exceed the length of the purchased service. In cases where payment over a period not exceeding the length of service would cause payments to be excessive in relation to the employee's compensation, the payment amount can be permitted to be set at a reasonable percentage of the employee's compensation and the term of payment extended to accommodate the reduced payment amount. Where installment payments are permitted, the payment schedule should provide for all payments to be completed during the member's period of active service with the public employer. If an employee making installment payments for purchasing service terminates active employment through early or normal retirement or leaves employment with entitlement to a deferred vested benefit, any remaining contributions required to be made in connection with the service purchase should be payable in lump sum prior to the employee's retirement or



termination. In cases where the employee retires on disability or dies prior to completing the installment payments, the remainder of the payments may be discontinued with a proration of the amount of service credited based on the portion of the full purchase amount completed to the date of disability retirement or death.

Limit On Number Of Purchases: The issue of whether an employee eligible to exercise an option to purchase prior service should be limited to a single exercise of the option involves many of the same considerations discussed in connection with time limitations on electing to purchase the service. Any authorization to make an initial purchase of less than the full amount of eligible prior service while retaining eligibility to purchase the remaining portion in the future represents a deferral in the completion of the purchase transaction. The actuarial funding consequences of such deferrals were discussed previously. With adequate notice concerning the employee's rights and limitations in connection with the service purchase, a requirement that the purchase be completed as a single transaction should not present an undue burden on the employee.

Restriction On Withdrawal Of Purchase Payment: Some public employee retirement systems in Pennsylvania permit the withdrawal of accumulated employee contributions with interest at retirement. Most notably, the State Employees' Retirement System and the Public School Employees' Retirement System offer an optional annuity form (Option 4) consisting of payment of accumulated member contributions with interest in lump sum (or up to four installments) with a reduced remaining lifetime annuity, including survivor options as elected by the retiring member. For county pension plans in second class A through eighth class counties, which consist of an employer-funded defined benefit plan and an employee-funded defined contribution plan, the retirement board may authorize lump sum payment at retirement of member contributions with credited interest without affecting the defined benefit portion of the plan.

Past practice with respect to service purchase under SERS and PSERS has been to consider the entire payment to be part of the member's accumulated contributions and therefore subject to withdrawal under Option 4. This includes amounts calculated to be the equivalent of the employer cost attributable to the purchased service. SERS and PSERS members with purchasable service typically wait until very close to the time of retirement to make the purchase payment, become entitled to an increased retirement benefit, and

receive an almost immediate return of the purchase amount as part of the Option 4 withdrawal. Thus, even in cases where the purchase price payable by the employee is designed to cover both the employee and employer cost attributable to the purchased service, the entire actuarial cost of the benefit increase is borne by the employer. As discussed earlier in this report, the specification of time limits on exercising the purchase option and making the purchase payment would substantially address this situation. In addition, for service purchases where the purchase price payable by the employee includes contributions representative of employer cost, it would be reasonable to preclude the amount representing the "employer" portion of the purchase payment from withdrawal by a member at retirement or upon leaving employment with entitlement to a vested deferred benefit.

Restriction On Duplication Of Service Credit: Members of the State Employees' Retirement System desiring to purchase service credit for out of state public education service and service with the Applied Research Laboratory at the Pennsylvania State University are restricted from purchasing this service if they are entitled to receive, eligible to receive at the time of purchase, or are receiving retirement benefits for the service under some other retirement system administered and wholly or partially paid for by any other governmental entity or by any private employer. There are similar restrictions for members of the Public School Employees' Retirement System purchasing service credit for previous sabbatical leave, out-of-state public education service, and county nurse service. These restrictions appear to be statutory expressions of the view that retirement benefits represent deferred compensation and that, as a matter of fundamental fairness, an individual should not be compensated twice for the same service.

## **Recommendations**

The Commission recommends the following with regard to the structuring of future service purchase authorizations in public employee pension plans:

- A. THAT LIMITS ON THE LENGTH OF SERVICE WHICH MAY BE PURCHASED BE ESTABLISHED AS FOLLOWS:
  1. FOR A SERVICE PURCHASE AUTHORIZATION APPLICABLE TO NON-INTERVENING MILITARY SERVICE, THAT A LIMIT ON THE LENGTH OF SERVICE WHICH MAY BE PURCHASED

## STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS (Cont'd)

BE SET IN THE RANGE OF 3 TO 5 YEARS, OR THE ACTUAL PERIOD OF MILITARY SERVICE IF LESS THAN THE SPECIFIED LIMIT;

2. FOR A SERVICE PURCHASE AUTHORIZATION APPLICABLE TO A GOVERNMENTAL TRANSFER, THE REINSTATEMENT OF PRIOR SERVICE WITH THE SAME EMPLOYER OR REMEDYING INEQUITIES CAUSED BY EMPLOYER ACTION, THAT THE ENTIRE PERIOD OF ELIGIBLE SERVICE BE PERMITTED TO BE PURCHASED.

B. THAT THE TIME DURING WHICH AN EMPLOYEE MAY EXERCISE AN OPTION TO PURCHASE SERVICE BE LIMITED AS FOLLOWS:

1. FOR A SERVICE PURCHASE APPLICABLE TO A GOVERNMENTAL TRANSFER, THAT THE PUBLIC EMPLOYEE RETIREMENT SYSTEM COVERING THE TRANSFERRED EMPLOYEES BE REQUIRED TO NOTIFY MEMBERS OF THEIR RIGHTS AND OBLIGATIONS IN CONNECTION WITH THE SERVICE PURCHASE WITHIN 60 DAYS OF THE DATE OF THE SERVICE PURCHASE AUTHORIZATION, WITH A COPY OF THE NOTIFICATION PROVIDED TO THE PRIOR PUBLIC EMPLOYEE RETIREMENT SYSTEM WHERE APPLICABLE, AND THAT AN EMPLOYEE BE REQUIRED TO EXERCISE THE PURCHASE OPTION WITHIN SIX MONTHS OF THE DATE OF NOTIFICATION;
2. FOR SERVICE PURCHASES FOR PURPOSES OTHER THAN GOVERNMENTAL TRANSFER, THAT EMPLOYEES BE REQUIRED TO EXERCISE THE PURCHASE OPTION WITHIN THREE YEARS OF BECOMING ELIGIBLE TO DO SO (I.E., WITHIN THREE YEARS OF EMPLOYMENT WHERE THE OPTION IS ALREADY CONTAINED IN THE PENSION PLAN OR WITHIN THREE YEARS OF THE EFFECTIVE DATE OF THE MODIFICATION OF THE PENSION PLAN WHERE THE PLAN IS MODIFIED TO PERMIT A PURCHASE OF SERVICE).

C. THAT ANY CONTRIBUTIONS REQUIRED IN CONNECTION WITH A SERVICE PURCHASE BE PAYABLE AS FOLLOWS:

1. FOR A SERVICE PURCHASE AUTHORIZATION APPLICABLE TO A GOVERNMENTAL TRANSFER WHERE PRIOR PUBLIC EMPLOYEE RETIREMENT SYSTEM COVERAGE WAS PROVIDED, THAT ANY CONTRIBUTIONS PAYABLE BY THE EMPLOYEE OR REQUIRED TO BE TRANSFERRED BY THE FORMER PUBLIC EMPLOYEE RETIREMENT SYSTEM BE PAYABLE IN LUMP SUM WITHIN 60 DAYS OF ELECTION OF THE PURCHASE OPTION BY THE EMPLOYEE;
2. FOR SERVICE PURCHASE OPTIONS APPLICABLE TO PURPOSES OTHER THAN GOVERNMENTAL TRANSFERS OR APPLICABLE TO GOVERNMENTAL TRANSFERS WHERE NO PRIOR PUBLIC EMPLOYEE RETIREMENT SYSTEM COVERAGE WAS PROVIDED, THAT ANY CONTRI-

## **STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS (Cont'd)**

---

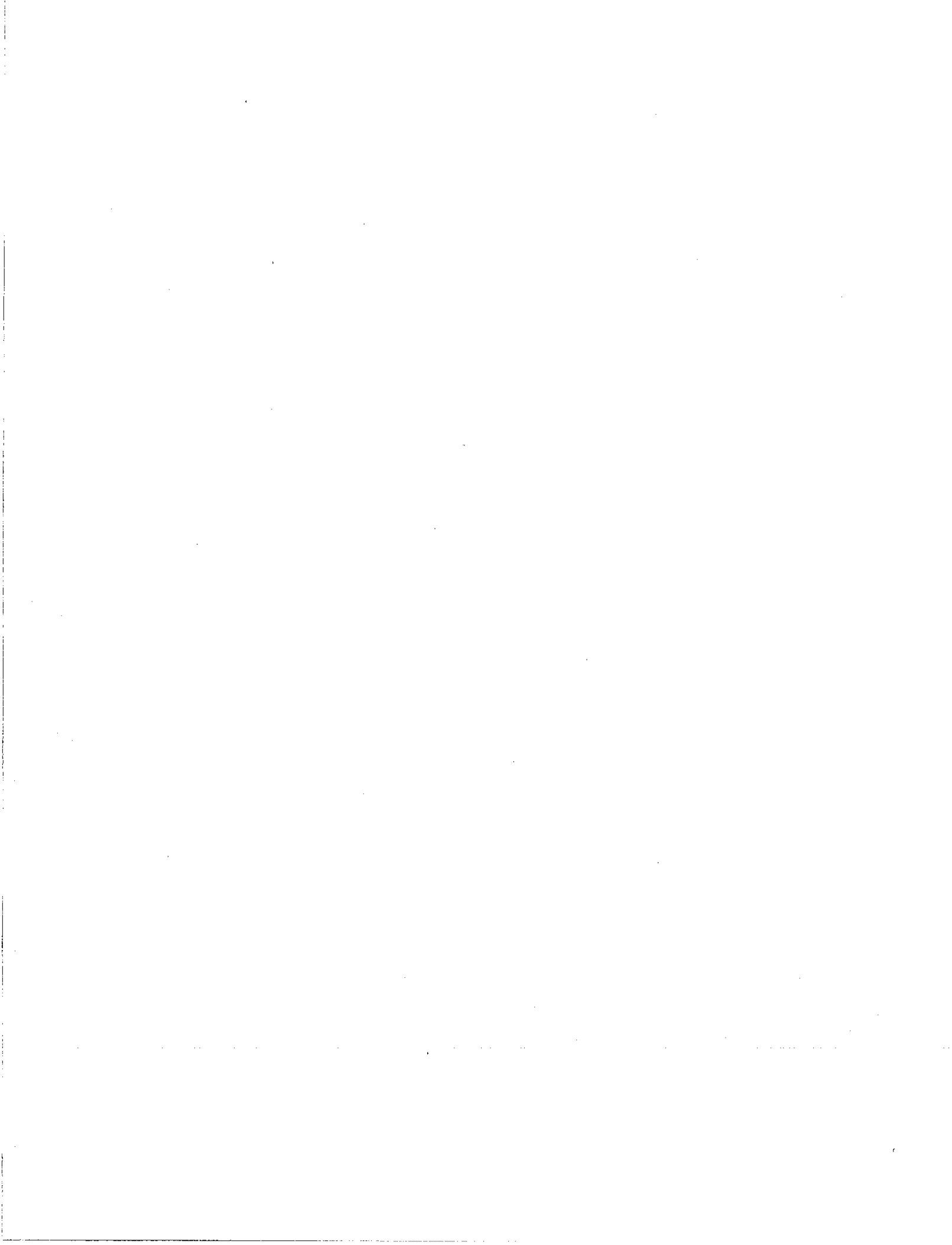
BUTIONS PAYABLE BY THE EMPLOYEE BEGIN WITHIN 60 DAYS OF ELECTION OF THE PURCHASE OPTION AND BE PAYABLE EITHER IN LUMP SUM OR IN ACCORDANCE WITH A SCHEDULE OF INSTALLMENT PAYMENTS NOT EXCEEDING THE LENGTH OF THE PURCHASED SERVICE AS AGREED UPON BY THE EMPLOYEE AND THE PUBLIC EMPLOYEE RETIREMENT SYSTEM;

3. THAT, IF LIMITING THE TERM FOR INSTALLMENT PAYMENTS TO THE LENGTH OF THE PURCHASED SERVICE CAUSES THE PAYMENTS TO EXCEED 5% OF THE EMPLOYEE'S COMPENSATION, A SCHEDULE OF LEVEL DOLLAR PAYMENTS EQUAL TO 5% OF THE EMPLOYEE'S COMPENSATION AT THE TIME THE PAYMENTS BEGIN BE PERMITTED, WITH THE TERM ADJUSTED ACCORDINGLY.
4. THAT ANY ARRANGEMENT FOR THE PAYMENT OF SERVICE PURCHASE CONTRIBUTIONS IN INSTALLMENTS REQUIRE THAT ALL PAYMENTS BE COMPLETED DURING THE MEMBER'S PERIOD OF ACTIVE SERVICE WITH THE PUBLIC EMPLOYER BY SPECIFYING THAT:
  - A. IF AN EMPLOYEE MAKING INSTALLMENT PAYMENTS FOR PURCHASING SERVICE TERMINATES ACTIVE EMPLOYMENT THROUGH EARLY OR NORMAL RETIREMENT OR LEAVES EMPLOYMENT WITH ENTITLEMENT TO A DEFERRED VESTED BENEFIT, ANY REMAINING CONTRIBUTIONS REQUIRED TO BE MADE IN CONNECTION WITH THE SERVICE PURCHASE ARE PAYABLE IN LUMP SUM PRIOR TO THE EMPLOYEE'S RETIREMENT OR TERMINATION; AND
  - B. IF AN EMPLOYEE MAKING INSTALLMENT PAYMENTS FOR PURCHASING SERVICE RETIRES WITH A DISABILITY BENEFIT OR DIES, THE RETIRED DISABLED MEMBER OR ELIGIBLE BENEFICIARY OF THE DECEASED MEMBER MAY ELECT TO:
    - I. PAY ANY REMAINING CONTRIBUTIONS REQUIRED FOR THE SERVICE PURCHASE IN LUMP SUM AND RECEIVE CREDIT FOR THE FULL PERIOD OF PURCHASABLE SERVICE; OR
    - II. CANCEL THE REMAINDER OF THE INSTALLMENT PAYMENT SCHEDULE AND HAVE THE AMOUNT OF SERVICE TO BE CREDITED PRORATED BASED ON THE RATIO THAT THE PAYMENTS MADE TO THE DATE OF DISABILITY RETIREMENT OR DEATH BEARS TO THE FULL PURCHASE AMOUNT APPLICABLE TO THE SERVICE PURCHASE.
- D. THAT A PUBLIC EMPLOYEE EXERCISING A SERVICE PURCHASE OPTION BE LIMITED TO ONE EXERCISE OF THE OPTION APPLICABLE TO ANY ONE PERIOD OF ELIGIBLE PRIOR SERVICE.

## **STRUCTURING OF SERVICE PURCHASE AUTHORIZATIONS (Cont'd)**

---

- E. THAT, IN CASES WHERE THE SERVICE PURCHASE AMOUNT REQUIRED TO BE PAID BY AN EMPLOYEE INCLUDES AMOUNTS REPRESENTATIVE OF BOTH EMPLOYER AND EMPLOYEE COST ATTRIBUTABLE TO THE PURCHASED SERVICE, THE PORTION OF THE PAYMENT REPRESENTING EMPLOYER COST BE PRECLUDED FROM WITHDRAWAL BY A MEMBER UPON RETIREMENT OR UPON LEAVING EMPLOYMENT WITH ENTITLEMENT TO A VESTED DEFERRED BENEFIT.
- F. THAT A PUBLIC EMPLOYEE WHO, AT THE TIME OF EXERCISE OF A PURCHASE OF SERVICE OPTION, IS ENTITLED TO RECEIVE, IS ELIGIBLE TO RECEIVE THEN OR IN THE FUTURE, IS RECEIVING OR HAS RECEIVED RETIREMENT BENEFITS UNDER A RETIREMENT SYSTEM ADMINISTERED AND WHOLLY OR PARTIALLY PAID FOR BY ANY OTHER GOVERNMENTAL ENTITY FOR THE SERVICE SOUGHT TO BE PURCHASED, BE PROHIBITED FROM PURCHASING SERVICE IN THE NEW PUBLIC EMPLOYEE RETIREMENT SYSTEM UNLESS THE EMPLOYEE WAIVES, IN WRITING, ANY OTHER BENEFIT FOR THAT SERVICE.



***APPENDIX***





## APPENDIX

1

Table of U.S. Average Wage by Year

---

---

<u>Year</u>	<u>U. S. Average Wage in Year</u>	<u>Year</u>	<u>U. S. Average Wage in Year</u>
1951	\$ 2,799.16	1976	\$ 9,226.48
1952	2,973.32	1977	9,779.44
1953	3,139.44	1978	10,556.03
1954	3,155.64	1979	11,479.46
1955	3,301.44	1980	12,513.46
1956	3,532.36	1981	13,773.10
1957	3,641.72	1982	14,531.34
1958	3,673.80	1983	15,239.24
1959	3,855.80	1984	16,135.07
1960	4,007.12	1985	16,822.51
1961	4,086.76	1986	17,321.82
1962	4,291.40	1987	18,426.51
1963	4,396.64	1988	19,334.04
1964	4,576.32	1989	20,099.55
1965	4,658.72	1990	21,027.98
1966	4,938.36	1991	21,811.60
1967	5,213.44	1992	22,935.42
1968	5,571.76	1993	23,132.67
1969	5,893.76	1994	23,753.53
1970	6,186.24		
1971	6,497.08		
1972	7,133.80		
1973	7,580.16		
1974	8,030.76		
1975	8,630.92		

<sup>1</sup> Determined by the United States Social Security Administration based on W-2 earnings subject to federal income tax.

