

Rollover/Transfer for Purchasing Service Credit

Fact sheet for active and deferred members



By comparing the difference in retirement benefits both with and without the purchase, and looking at the length of time it will take to recover the dollars you pay to complete the purchase, you can decide if it's an option you want to pursue.

This fact sheet is only applicable to a member who is considering a service credit purchase. If you have received a service credit purchase contract from SDCERA, you might consider a rollover/transfer to complete the contract and this fact sheet will help you understand the rollover/transfer option.

SDCERA is a defined benefit pension plan qualified under Section 401(a) of the Internal Revenue Code (IRC). SDCERA accepts rollovers/transfers from eligible tax-deferred or deferred compensation plans (as described below) for the purchase of eligible service credit. SDCERA's rules for accepting rollover/transfer funds must comply fully with the IRC and applicable regulations.

Eligibility for rollover/transfer

Members who are eligible to purchase service credit may take advantage of the rollover provision to complete the purchase. By using rollover/transfer funds, you are using money from an eligible tax-deferred plan to purchase eligible service credit.

Eligible service credit includes:

- Sick leave without pay (up to one year)
- Service prior to membership (temporary, seasonal, hourly or student worker time)
- Redeposit of withdrawn contributions (from a previous period of SDCERA membership)
- Prior public agency service (if not eligible for purchase through the prior public agency) Note: Purchased prior public agency service does not count in meeting the minimum service credit requirements for service or disability retirement (i.e. five years of service credit for vesting).

Eligible plans include:

- California §457 Deferred Compensation Plan
- Governmental §403(b) Plan
- Qualified §401(a) Plan (including a defined benefit plan, 401(k) or Keogh)
- Eligible Individual Retirement Account (IRA or Conduit IRA)

For additional information regarding service credit purchases, refer to the *Purchasing Service Credit* fact sheet available at www.sdcera.org or from SDCERA.

Pros and cons

As you may know, service credit is one of the factors that determines your SDCERA retirement benefit. Therefore, purchasing eligible service credit generally results in an increased monthly retirement benefit because your service credit has increased. However, SDCERA does not pay a retirement benefit greater than 100% of a member's final average compensation at retirement. Therefore, if you have reached the maximum allowable benefit of 100%, an SDCERA service credit purchase would not increase your benefit.

Cost to purchase service credit

Generally you will pay the contributions you would have made during the period of time you are purchasing (or some multiple of the contributions) plus interest that has accrued on the money. If you have eligible service credit to purchase, and would like SDCERA to calculate the cost for you, please complete and submit the request form (available at www.sdcera.org or from

SDCERA) to begin the process. SDCERA's response will include the amount of eligible service credit you may purchase, the lump sum payment cost including interest, and the calculation of retirement benefits both with and without the purchase.

More to consider

The dollar amount of the increase to your allowance should not be the only factor considered when deciding whether or not to use rollover/transfer funds to purchase eligible service credit. Keep in mind that once your money is deposited into your SDCERA account, you cannot remove it unless you separate from employment and elect a refund of your entire SDCERA account. SDCERA does not allow hardship withdrawals or participant loans.

Early withdrawal distributions are generally subject to tax penalties; however, a rollover/transfer used to purchase eligible service credit will remain tax-deferred and will not be subject to income tax until it is paid out in the form of monthly benefits or a refund. Check with your Plan's/IRA's administrator and your professional tax advisor to determine if your rollover/transfer will be subject to tax and make the decision that best fits your situation.

By using rollover/transfer funds, you are using money from an eligible tax-deferred plan to purchase eligible service credit.

Internal Revenue Code (IRC) Section 415(b) limits the amount of retirement benefits that you may receive or accrue under a qualified retirement plan. The limit may reduce the annual retirement benefits you receive from SDCERA. However, in order to avoid any impact to its employees, the County Board of Supervisors adopted an Excess Benefit Plan that will make up the difference in retirement pay for any County employee who is affected by this IRC limitation.

As with all important tax and long term financial decisions, your first step is to learn all you can about retirement planning. Attend an SDCERA educational workshop to better understand the SDCERA retirement plan, learn how to calculate your benefit and gain knowledge about financial planning.

Make your decision

Evaluate the cost of making a service credit purchase against your estimated increase in retirement benefits. By comparing the difference in retirement benefits both with and without the purchase, and looking at the length of time it will take to recover the dollars you pay to complete the purchase, you can decide if it's an option you want to pursue. SDCERA recommends you discuss the purchase with a qualified financial advisor.

As a reminder, active members have the option of purchasing service credit by lump sum payment (on either a pre-tax basis via rollover/transfer or on an after-tax basis via personal check) or through payroll deductions, on an after-tax basis. (Payroll deduction is not available to deferred members.) Read more in the *Considerations before Purchasing Service Credit* fact sheet, available at www.sdcera.org or from SDCERA. All service credit purchases must be completed prior to your retirement date.

SDCERA library of publications

Booklets

Disability Retirement
Dividing Community
Property
Health Insurance Program
for Retired Members
Now that You are Retired
Retirement Plan
Survivor and Beneficiary
Information

Fact sheets

Considerations after
Termination
Considerations before
Purchasing Service Credit
Deferred Membership
Disability Retirement
Earning Service Credit
Health Insurance Allowance
Health Insurance Plans
Medicare Information for
SDCERA Health Plans
Purchasing Service Credit
Reciprocity
Refunds
Retirement Benefit Options
Retirement Plan Summary
Rollover/Transfer for
Purchasing Service Credit
Supplemental Benefit
Allowance

Next steps

- (1) Read the *Purchasing Service Credit* fact sheet to determine whether or not you have eligible service credit to purchase.
- (2) Complete and submit the request for costs form (available at www.sdcera.org or from SDCERA).
- (3) SDCERA's response will include the amount of eligible service credit you may purchase; the lump sum cost; the calculation of retirement benefits both with and without the purchase; the purchase contract and a *Rollover/Transfer Request* form.
- (4) Upon receipt of this information, determine whether you have enough money in an eligible tax-deferred plan (as described previously) to complete the purchase in a lump sum payment. Note: If sufficient rollover/transfer funds are not available, personal funds may be added.
- (5) Complete the *Rollover/Transfer Request* form. A section of the form must also be completed by the transferring plan with the applicable plan certification. In addition, the transferring plan may also have paperwork you must complete. Detailed instructions are included on the form.
- (6) Submit the following to SDCERA: (1) The completed *Rollover/Transfer Request* form; (2) the signed SDCERA purchase contract and (3) the funds to complete the purchase.

This fact sheet provides disclosure of certain terms and conditions of SDCERA membership and benefits available to members. It is designed to give you this information as simply and accurately as possible as of the date of issuance of this fact sheet. SDCERA is governed by the County Employees Retirement Law of 1937 (Government Code Section 31450 et. seq.) as it has been adopted and implemented by the San Diego County Board of Supervisors and the SDCERA Board of Retirement. If there is any inconsistency between this fact sheet and the governing law, the law will govern. Decisions relating to the plan will be made after reference to the statutes and any resolutions, regulations and policies governing administration of SDCERA as they exist at the same time of the decisions.
Rev. 6/2007



SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
2275 RIO BONITO WAY, SUITE 200
SAN DIEGO, CA 92108-1685