

**TYPES OF SERVICE PURCHASES AND PAYMENT METHODS TO
PURCHASE SERVICE AT ATRS THROUGH JUNE 30, 2011
OVERVIEW**

AS A PRELIMINARY MATTER IF YOU ARE AN ATRS RETIREE OR YOU ARE IN T-DROP, THEN YOU **ARE NOT ELIGIBLE TO PURCHASE SERVICE!**

This Executive Director Update will address issues about creating a service purchase account, the types of service that may be purchased at ATRS, and the different payment methods to purchase service. Members must act QUICKLY to meet the deadline to use the current service purchase formula. **The current service purchase formula is replaced by an actuarial cost formula on July 1, 2011!**

Purchase accounts utilizing the "old formula" must be **fully established** prior to **July 1, 2011**. Any purchase that is undertaken after that date uses actuarial value for the cost to the member. ATRS will use the postmarked date for members using the U. S. Postal service to meet the June 30th deadline. If you need to file a commitment form, you can fax the commitment form to 501- 682-5308 or you can email the form to Michael Ray at miker@atrs.gov.

ATRS Phone #'s:

1-501-682-1517

1-501-682-2175

1-800-666-2877

ADDRESS:

1400 West Third Street

Little Rock, AR 72201

An active (working) member may be eligible to purchase service in the System, thus increasing the total number of years used in the calculation of benefits for the member. Each type of "purchase service" currently has specific provisions on the cost calculation. A member intending to purchase service under the "old formula" should be aware of the **“often lengthy”** process of establishing service credit. In many cases, certification from multiple sources is required prior to the establishment of the purchase account. The required certifications typically involve local, state, out-of-state, and/or federal entities to verify previous employment and/or involvement in other retirement plans. Some are very slow to respond and provide required information. **The receipt of the outside information by ATRS is the responsibility of the member!**

Once the System receives completed paperwork from the member and verification of prior employment and/or prior participation in other retirement system(s), a cost estimate for the purchase of service will be provided to the member. Finally, a commitment statement and payment plan will be completed by the member and ATRS to establish a purchase account. All of these steps must be complete for a purchase account to be recognized as established. As another reminder, this entire process must be completed prior to **July 1, 2011** in order to establish a purchase account **using the old formula**. If a member has interest in purchasing service with ATRS, then the active member should contact the ATRS Benefits & Counseling office at **501-682-1517** or **1-800-666-2877** without delay.

ALL THE FOLLOWING TYPES OF PURCHASES WILL REQUIRE ACTUARIAL VALUE TO PURCHASE SERVICE AFTER JULY 1st

1. Changing noncontributory service to contributory service

Under current law, active members with noncontributory service in ATRS may convert noncontributory service to contributory service, which produces higher retirement benefits in the benefit calculations. Under the existing purchase formula, members are

required to pay the employee contributions at the contribution rate in effect at the time of service and an 8% annual interest rate. This will change to ACTUARIAL COST!

2. Repayment of ATRS refunded service

Under the current law, active members who terminated employment previously and withdrew their contributions plus interest may restore the service by repaying the refunded contributions plus interest plus 8% annual interest from the date of withdrawal to the date of repayment. This will change to ACTUARIAL COST!

3. Out-of-State Teaching service

Under the current law, active members may be eligible to purchase up to fifteen (15) years of out-of-state service provided the service was rendered in a position that would have been covered by ATRS had it been in a public school our state and the member is not drawing or eligible to draw retirement from another entity based on the same service. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

4. Private School Teaching service

Under the current law, active members may be eligible to purchase up to fifteen (15) years of private school service provided the service was rendered in a private school recognized by the Arkansas Department of Education and the member is not drawing or eligible to draw retirement from another entity based on the same service. (Employment under the Head Start Programs will be considered private school service.) The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

5. Overseas Teaching service

Under current law, active members may be eligible to purchase up to ten (10) years of overseas service provided they have worked in an American type school sponsored and approved by the U.S. Department of State, the Department of Defense **or provided service in the Peace Corps or Volunteers In Service To America (VISTA)** and the member is not drawing or eligible to draw retirement from another entity based on the same service. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

6. Sabbatical leave

Under current law, active members could be eligible to establish credit for service during a leave of absence taken to obtain an advanced degree or to fulfill requirements of a grant at an institution of higher learning. The leave must have been since June 28, 1985, and must be for at least 120 days during each fiscal year. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

7. Prior service (unreported in an ATRS covered position)

Under current law, active members may be eligible to establish service rendered in an ATRS covered position on which no employer or employee contributions have been paid. This usually includes **older** part-time service, substitute teaching service, teacher's aide's service, and most other service that was provided prior to the law that required all ATRS employers to report all employees to ATRS. After June 30th, prior service at a college cannot be purchased! The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

8. Domestic Federal service

Under current law, active members may be eligible to purchase up to ten (10) years of domestic federal service provided the service was rendered in a position covered by ATRS had it been in our state and the member is not drawing or eligible to draw retirement from another entity based on the same service. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST.

9. Federal Retirement service

Under current law, active members may be eligible to purchase up to ten (10) years of Federal Retirement service provided the member is not drawing or eligible to draw retirement from the Federal Retirement System. This purchase uses a current salary calculation to substitute for the old salary and then uses dates of service and compound interest. This will change to ACTUARIAL COST!

10. National Guard and Armed Forces Reserve service

Under **the NEW CURRENT LAW**, ACT 66 of 2011, active members may be eligible to purchase up to five (5) years of service credit for time in all National Guard service and any U.S. armed forces reserve service on a year-for-year basis. Through June 30th, this is a formula based calculation. After that time, this will change to ACTUARIAL COST!

11. Military service

Under current law, members with at least five (5) years of credited service in ATRS may be eligible to purchase up to five (5) years of active military service credit provided they received an honorable discharge. Through June 30th, this is a formula based calculation. After that time, this will change to ACTUARIAL COST!

HOW TO PAY THE BALANCE ON SERVICE PURCHASE ACCOUNTS

STARTED BEFORE JULY 1, 2011

The ATRS Board has adopted a new easier process for purchase accounts for use between now and July 1, 2011. The plan highlights are as follows:

ATRS will no longer require a post-tax payment (typically it is \$1,000) to open a purchase account. You can start a new purchase account with NO MONEY DOWN! A member can choose various options, or combination of options, to pay the purchase account over time.

The member has to submit a proposal for how the total cost will be paid. ATRS staff will approve any proposal that provides a method for realistic completion of the purchase. The ATRS Board decided to adopt this new process to assist members by not requiring an initial down payment on a purchase plan and to also eliminate accounting issues created by the old process that always required the commingling of post and pre-tax money in a member's account.

SOME SPECIFIC WAYS TO PURCHASE SERVICE

Some members may want to know the various methods that exist for funding a purchase of service account. The methods are as follows:

1. Rollover

A member may rollover various retirement accounts to fund a purchase. This is often very beneficial in that the member can have greater buying power by using pre-tax money versus taking money that is often in a retirement account that has already been taxed to pay for the purchase. The most commonly used accounts to purchase service at ATRS are 457 deferred compensation accounts, 403(b) retirement accounts, 401(a)

retirement accounts, individual retirement accounts (IRAs), and retirement accounts such as TIAA CREF.

2. Irrevocable Purchase Account (IPA)

A person may set up an irrevocable purchase account (IPA) as an agreement between their ATRS employer, ATRS, and the member. Typically the member agrees to have a certain amount taken out of every payroll check (this is a pre-tax deduction). **The member gets a tax advantage by using the IPA due to PRE-TAX dollars being used, just like on the member's contribution!**

The balance is paid much like a car loan. ATRS works with the member to determine the total amount the service purchase would cost and sets up payment arrangements through a specific IPA. For instance, if the member wanted to pay the total amount off in seven (7) years, ATRS would calculate the total monthly or quarterly payment that would need to be paid in order for the amount to be paid off through the employer withheld pre-tax deductions. In the event the member changed employers or otherwise had a change in status, ATRS would allow the member to amend the plan to take into consideration the change.

3. Personal Check

The member can use post-tax dollars such as writing a monthly check from their checking account, using savings accounts, or other sums either in monthly payments or in lump sum payments to retire the obligation on the purchase account.

4. Combination of Methods

A member may use all three of these methods in combination, if the member desires. For instance, a member could roll over money from retirement accounts to pay a part of the amount, set up an IPA to pay on the balance and also supplement these payments with post-tax money in the event the member had extra money that became available to pay on the account. (It may be to the member's benefit to just increase the IPA due to

the benefit of pre-tax dollars) ATRS is very flexible in working with the member to make these purchase accounts work for the member.

The new ATRS process will require a member to have a plan in place to pay the total amount of the new purchase accounts. A copy of the new commitment form can be obtained from ATRS by email or fax. The commitment form can be set up just like a loan payment agreement. The ATRS process will require to member to have a plan in place to pay the total amount of the new purchase account. These plans can be **very** flexible. Hopefully, this update will help clarify options to members concerning purchase accounts at ATRS between now and July 1, 2011. **TIME IS VERY SHORT!**

CONCLUSION

In most cases, purchased service cannot be used for vesting purposes. Also, only active members are eligible to purchase service. Again, ATRS staff strongly encourages those members who are interested in establishing a purchase account to act quickly in order to ensure their purchase account is complete and established prior to **July 1, 2011**. For additional information including estimated costs regarding the purchase of service in ATRS, please contact the Benefits & Counseling Department at **501-682-1517** or **1-800-666-2877** to discuss your account options.