



# Purchase Additional Service Credit

Additional Service Credit Will Increase Your Retirement Benefit



2015-16



# Contents

Introduction	3
Types of Service Credit to Purchase	5
Redeposit	5
Permissive Service Credit	6
The Cost to Buy	8
Making the Purchase	11

*The information in this brochure applies to CalSTRS Defined Benefit Program members. If a conflict arises between this information and the Teachers' Retirement Law, the law prevails.*

*The Governor and Legislature occasionally make statutory changes that may affect your retirement. We make every effort to communicate these changes to you, but legislation can undergo rapid change. To stay informed, consult a variety of sources, including the California State Legislative information website at [leginfo.legislature.ca.gov](http://leginfo.legislature.ca.gov), [CalSTRS.com](http://CalSTRS.com) and your union or elected legislative representatives.*

## Introduction

As a CalSTRS member, you participate in a hybrid retirement system consisting of traditional defined benefit (Defined Benefit Program), cash balance (Defined Benefit Supplement Program) and voluntary defined contribution (CalSTRS Pension2®) plans.

Your service retirement benefit under the Defined Benefit Program is based on your years of service credit, your age at retirement and your final compensation. The more service credit you have, the more your monthly retirement benefit will be.

This brochure describes purchasing service credit and shares information to help you make an informed decision.

You may purchase a portion, rather than all, of any additional service credit you have available. However, you cannot purchase service credit if you have received, or are eligible to receive, credit for the service in another public retirement system.

**If you plan to purchase additional service credit just before retirement, CalSTRS must receive your payment in full before your retirement date.**

➤ The California Public Employees' Pension Reform Act of 2013 made significant changes to the benefits for members first hired to perform CalSTRS creditable activities on or after January 1, 2013, and who never before performed CalSTRS creditable activities under a different retirement system, including Social Security. As a result, CalSTRS has two benefit structures:

- **CalSTRS 2% at 60:** Members first hired on or before December 31, 2012.
- **CalSTRS 2% at 62:** Members first hired on or after January 1, 2013.

For more information, see the *Member Handbook*, available at [CalSTRS.com/publications](http://CalSTRS.com/publications).

## CalSTRS Retirement Formula

The retirement formula, set by law, multiplies three components:

- Your years of service credit.
- A percentage based on your age at retirement.
- Your final compensation, which is equal to the highest average annual compensation earnable for 36 consecutive months, or 12 consecutive months if you are eligible for the one-year final compensation benefit enhancement.

## Benefit Enhancements

At certain service credit milestones, if you are under the 2% at 60 benefit structure, you may become eligible for benefit enhancements, which provide additional incentives to retire with as much service credit as possible.

### One-Year Final Compensation

If you retire with 25 or more years of qualified service credit, your final compensation will be based on your highest average annual compensation earnable for 12 consecutive months rather than 36 consecutive months. CalSTRS 2% at 62 members are not eligible for one-year final compensation.

### Career Factor

If you retire with 30 or more years of service credit, 0.2 percent will be added to your age factor, up to a maximum combined age factor and career factor of 2.4 percent. CalSTRS 2% at 62 members are not eligible for the career factor.

- See the *Member Handbook* for details on benefit enhancements.

**CalSTRS 2% at 62 members are not eligible for benefit enhancements.**

## Calculating Your Benefit

To see how your service credit purchase can increase your monthly retirement benefit, visit [CalSTRS.com/calculators](http://CalSTRS.com/calculators). Use the *Retirement Benefits Calculator* to estimate your monthly benefit with and without the additional service credit.

## Purchase Process Overview

To purchase service credit:

1. Understand the types of service credit available for purchase.
  2. Estimate the cost to purchase at [CalSTRS.com/calculators](http://CalSTRS.com/calculators).
  3. Decide if a service credit purchase is right for you. A CalSTRS benefits specialist can help you calculate costs and estimate the potential increase to your retirement benefit. Contact a financial professional for advice regarding your situation.
  4. Complete and print service credit forms from your *myCalSTRS* account or at [CalSTRS.com/forms](http://CalSTRS.com/forms).
  5. Review the billing statement CalSTRS sends, with the exact cost, if you're eligible to purchase service credit. Requesting and receiving a billing statement does not obligate you to purchase service credit.
  6. Make the purchase. Purchases must be paid in full prior to your retirement date.
- See page 11 for more details.



# Types of Service Credit to Purchase

## Redeposit

If you previously terminated CalSTRS-covered employment and refunded your CalSTRS contributions and interest, you can make a full or partial redeposit of your Defined Benefit contributions, plus interest, if you return to CalSTRS membership or if you are a member of one of these California public retirement systems:

- California Public Employees' Retirement System
- Legislators' Retirement System
- San Francisco Employees' Retirement System
- University of California Retirement System
- Systems under County Employees' Retirement Law of 1937, which include the following counties: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin, Mendocino, Merced, Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara, Sonoma, Stanislaus, Tulare and Ventura

A redeposit allows you to restore the service credit you lost from your earlier refund. To receive the same amount of service credit you had when you took the refund, you will have to pay the interest that the refunded amount would have earned had the funds remained in your CalSTRS account. The longer the elapsed time between your refund and redeposit, the higher the redeposit amount will be.

Redepositing does not re-establish your earlier membership date for your retirement benefit calculation or satisfy the requirement to work one year after reinstatement for eligibility for certain benefits. However, if you were a member before 2013, took a refund and return to active membership on or after January 1, 2013, you will remain under the CalSTRS 2% at 60 benefit structure.

You can choose to redeposit a portion, rather than all, of your refunded service credit along with applicable interest. If you received multiple refunds, CalSTRS adds each refunded amount, plus interest, to arrive at a total cost. You can then redeposit all or a portion of that total cost.

## Community Property Refund

Some court-ordered community property settlements divide your service credit, contributions and interest to create a separate account for your former spouse or registered domestic partner. This division will reduce your service credit.

If you are a current CalSTRS member and your former spouse or partner takes a refund of that separate account, you may purchase all or a part of your lost service credit. If you do not purchase this service credit, it will not be included in your retirement benefit calculation. However, for CalSTRS 2% at 60 members, this service credit will count in determining your eligibility to receive benefit enhancements.

## Local Service

Teachers who were active in the Los Angeles or San Francisco local retirement system on July 1, 1972, and refunded from that system, have the opportunity to redeposit their contributions into CalSTRS. Unless you redeposit contributions for this service, your retirement benefit will only include up to \$2.40 per year of Local Service credit.

To redeposit service credit, use the *Redeposit or Purchase of Permissive Service Credit* form, available on [myCalSTRS](#) or at [CalSTRS.com/forms](#).

**You may not redeposit refunded Defined Benefit Supplement contributions and interest.**

## Permissive Service Credit

You may purchase service credit for employer-approved leaves or service not previously credited. You may purchase a portion or all of any permissive service credit for creditable service you have performed. You may not, however, purchase credit for service:

- You performed during summer school or overload teaching prior to July 1, 2002.
- For which you have received, or are eligible to receive, credit in another California public retirement system.

Use the *Redeposit or Purchase of Permissive Service Credit* form available on *myCalSTRS* or at [CalSTRS.com/forms](http://CalSTRS.com/forms) to purchase service credit for the following activities:

- **Nonmember service:** Part-time or substitute service in the California public school system before you were a CalSTRS member or between refunding and becoming a CalSTRS member again.
- **Maternity or paternity leave:** Leave approved by your CalSTRS-covered employer, not to exceed 24 months.\*
- **FMLA or CFRA Family Medical Leave:** Employer-approved leave under the Family and Medical Leave Act or California Family Rights Act guidelines for up to 12 work weeks in any 12-month period. You cannot purchase family medical leave for events that occurred before January 1, 1992, the effective date of the FMLA.\*
- **Sabbatical leave:** Qualified employer-approved leave in California as authorized by your school district.\*

- **Fulbright leave:** Employer-approved leave in any program under the Federal Mutual Educational and Cultural Exchange Program.\*
- **Child care center:** Certificated teaching position in a California child care center operated by a county superintendent of schools or school district.
- **Native American school:** Certificated teaching position in a federally administered and supported Native American school in California.
- **School for the deaf or blind:** Teaching in the California School for the Deaf or the California School for the Blind or other special classes operated by California public schools for deaf or blind persons.
- **Job Corps:** Up to two years of service credit in a certificated teaching position in a Job Corps center administered by the federal government in California. You must have been a CalSTRS member employed to perform creditable service within one year prior to starting your Job Corps position and returned to CalSTRS-covered employment within six months of terminating it.
- **Peace Corps:** Up to two years of service credit for service performed in a teaching position. You must have been a CalSTRS member employed to perform creditable service within one year prior to entering the Peace Corps and returned to CalSTRS-covered employment within six months of terminating your Peace Corps service.

\* These types of permissive service credit purchases require verification from the employer who approved the leave, using the *CalSTRS Verification for Employer-Approved Leaves* form or a letter from the employer. The letter must be on the employer's letterhead and identify the time frame (to and from dates) and the type of approved leave. The employer verification must accompany the *Redeposit or Purchase of Permissive Service Credit* form. These forms are available online at [CalSTRS.com/forms](http://CalSTRS.com/forms) and *myCalSTRS*.

- **Certain active U.S. military service:** Active CalSTRS membership within one year prior to entering military is required. A copy of the *DD Form 214, Certificate of Release or Discharge from Active Duty*, must accompany this request.

### Out-of-State or Foreign School Service

This includes work in public education for another state, U.S. territory, overseas school administered by the U.S. Department of State, or a foreign public school that provides a level of education comparable to grades K–12. If you buy service credit you earned in another public retirement system, excluding Social Security, you must give up benefits you would have received from that system.

To purchase this credit, use the *Out-of-State or Foreign School Service Credit Certification* form available on myCalSTRS or at CalSTRS.com/forms.

**Service credit plays an important role in building your CalSTRS retirement income.**

### California Public University Service

This includes teaching at the University of California or California State University that is not covered by another public retirement system.

To purchase this credit, use the *Verification for California Public University Service Credit* form.

**Do not use this form for service performed in a California community college.** To redeposit or purchase California community college service credit, use the *Redeposit or Purchase of Permissive Service Credit* form. All forms are available on myCalSTRS or at CalSTRS.com/forms.

### Cash Balance Service

If you are a member currently contributing to the Defined Benefit Program and you contributed to the Cash Balance Benefit Program as a part-time teacher, your Cash Balance service may be converted to service credit under the Defined Benefit Program.

For more information on this conversion, see the *Cash Balance Request to Consolidate Benefits* packet at CalSTRS.com/forms or call CalSTRS at 800-228-5453 to request a packet by mail.

## ➤ Did You Purchase Nonqualified Service Credit in the Past?

Keep in mind that nonqualified service credit can be used for the 30-year service credit requirement to qualify for service retirement between the ages of 50 and 55 for CalSTRS 2% at 60 members. Nonqualified service cannot be used to qualify for the career factor, longevity bonus or the 25-year threshold for one-year final compensation. Nonqualified service credit is no longer available for purchase.



# The Cost to Buy

## Redeposit

The cost to redeposit depends on how much service credit you wish to purchase and, because interest must be paid, the length of time between the refund and the request to redeposit the funds.

Because most members end up making a redeposit close to retirement, the time gap between the refund and the redeposit is often large. This gap can make the redeposit costly. You can purchase a portion, rather than all, of the service credit represented by any refund you received. If you took multiple refunds, the cost will be a weighted average of the total of all refunds plus interest.

To estimate the cost to redeposit refunds, visit [CalSTRS.com/calculators](http://CalSTRS.com/calculators).

## Example

- Nick became a CalSTRS member in 1983 and then terminated his employment in 1994, taking a refund of \$19,500 for his 11 years of service credit. He returned to CalSTRS-covered employment in 1996 and, in 2015, bought back those 11 earlier years of service credit. The full cost of that purchase was \$72,061, which included his original refund of \$19,500 plus \$52,561 in interest.

### Benefit of Redeposit Example

If Nick worked full time from 1996 until his retirement in 2015 at age 60, he would have 19 years of service credit without the purchase of the refunded service credit. However, with the additional 11 years, he would have 30 years of service credit, which would qualify him for the career factor and one-year final compensation benefit enhancements.

**Before Purchase:** Multiply 19 years of service credit (1995–2014) x 2 percent age factor x \$5,000 final compensation (using Nick's highest average annual compensation earnable: \$58,000; \$60,000; \$62,000) = \$1,900 monthly benefit.

Years of Service Credit		Age Factor		Three-Year Final Compensation		Monthly Benefit
19	x	.020	x	\$5,000	=	\$1,900

**After Purchase:** Multiply 30 years of service credit x 2.2 percent age factor x \$5,167 final compensation (using Nick's highest average annual compensation earnable of \$62,000) = \$3,410 monthly benefit.

Years of Service Credit		Age Factor and Career Factor		One-Year Final Compensation		Monthly Benefit
30	x	.022	x	\$5,167	=	\$3,410

This is a benefit increase of \$1,510 a month after purchasing the 11 years of service credit.

### Time to Recover Costs:

Purchase Cost		Monthly Increase		Time to Recover Costs
\$72,061	÷	\$1,510	=	47.7 months ÷ 12 = 3.98 years



## Permissive Service Credit

The cost to purchase permissive service credit depends on your highest compensation earnable in the last three school years of CalSTRS-covered employment, the amount of service credit being purchased, and the current permissive service credit contribution rate for your age (see table on the right).

Visit [CalSTRS.com/calculators](http://CalSTRS.com/calculators) to estimate the cost to purchase permissive service credit. To manually calculate your cost:

1. Multiply the amount of service credit (years) you want to purchase by the contribution rate for your age group.
2. Multiply the result by your highest compensation earnable during the last three school years.

### Permissive Service Credit Cost Example

In August 2015, Gabriel wants to purchase one year of service credit for his employer-approved paternity leave. Gabriel is 31 years old. He is at a contribution rate of 16.4 percent. His highest compensation earnable from the last three school years is \$50,000.

Years of Service to Purchase		Permissive Contribution Rate		Highest Compensation Earnable		Cost to Buy
1	x	16.4%	x	\$50,000	=	\$8,200

If Gabriel retired at age 60 with 29 years of service credit (including the paternity leave service credit) and his highest average annual compensation earnable was \$80,000, his monthly retirement benefit would increase by \$133 per month.

➤ If you are not currently working in CalSTRS-covered employment, additional regular interest will be added to the cost of your purchase. Contact us for more information.

Contribution Rates		
Age	CalSTRS 2% at 60	CalSTRS 2% at 62
Below 28	15.3%	12.8%
28	16.0	13.4
29	16.2	13.8
30	16.3	13.8
31	16.4	13.9
32	16.7	14.0
33	16.8	14.1
34	16.9	14.1
35	17.0	14.1
36	17.4	14.6
37	17.7	14.8
38	17.9	15.0
39	18.1	15.2
40	18.5	15.6
41	19.2	16.3
42	19.5	16.5
43	19.7	16.8
44	20.0	17.0
45	20.4	17.3
46	20.8	17.6
47	21.2	18.0
48	21.8	18.5
49	22.2	18.9
50	22.9	19.3
51	23.5	19.8
52	24.1	20.4
53	24.7	20.9
54	25.5	21.5
55	26.1	22.1
56	26.8	22.7
57	27.4	23.3
58	28.3	24.0
59	29.0	24.6
60	29.8	25.3
61	30.6	26.0
62	31.2	26.7
63	30.8	27.4
64	30.2	28.5
65	29.5	28.8
66	28.9	28.2
67	28.1	27.5
68	27.4	26.8
69	26.6	26.1
70	25.7	25.4
71	25.1	24.6
72	24.2	23.8
73 and above	22.3	22.0

These rates are effective July 1, 2015. Rates may be adjusted each July 1. The new rates are available in spring by calling 800-228-5453.

## Make an Informed Decision

Regardless of the type of service credit you purchase, you will want to compare the purchase price with the potential boost in your retirement benefit. To help you make an informed decision, a few simple steps can provide you with an idea of the cost and how long it will take to recover that cost.

1. Calculate the cost to purchase the service credit.
  - **Online:** Go to [CalSTRS.com/calculators](http://CalSTRS.com/calculators).
  - **Manually:** See the steps on page 9 for permissive service credit purchase.
2. Estimate the monthly increase you would receive with the extra service credit.  
Use the *Retirement Benefits Calculator* at [CalSTRS.com/calculators](http://CalSTRS.com/calculators) to estimate your monthly payment with and without the extra service credit.

3. Calculate how long it will take to recover your cost to pay for the service credit.

For a rough estimate, divide step 1, the cost of buying the service credit, by step 2, your monthly benefit increase. Then divide this amount by 12 (months). See example under “Benefit of Redeposit Example” on page 8.

We recommend discussing your options with a professional financial planner.



- If you are nearing retirement and purchasing service credit, particularly if you intend to pay for service credit with a rollover, we recommend you contact CalSTRS at least 90 days before your retirement date to complete payment. Your service credit must be paid in full before your retirement date.

# Making the Purchase

After you estimate the cost to purchase service credit, the increase to your monthly benefit and the recovery time—the time it will take you in retirement to recover the cost of your purchase—your next action is to make the purchase.

There are three steps to making the purchase:

1. Go to *myCalSTRS* or *CalSTRS.com/forms* and complete the proper form, then mail it to CalSTRS.
2. CalSTRS determines your eligibility and sends you a billing statement.
3. Select your payment choice and return your billing statement by the due date. The receipt date, based on the delivery date of your written request, is documented by the CalSTRS mailroom or member service center date stamp.
  - For redeposit, failure to respond by this date will result in a higher cost.
  - For permissive service credit, failure to respond by this date may result in a higher cost.

Payment methods may include any combination of the following:

- A lump-sum payment.
- A rollover from a qualified plan.
- Up to 120 monthly installments (not less than \$25 each) made by direct mail or payroll deduction. Interest is charged each month on the unpaid balance. You must complete the purchase before your retirement date.

For payroll deduction, select the payment schedule that meets your financial needs. Payments may be tax deferred if authorized by your employer. Under federal law, once you sign up for tax-deferred payments, you cannot change the payment method, amount or period of installments. You are locked into an irrevocable payment authorization contract.

However, under certain circumstances, such as termination of employment or retirement, the contract may be terminated.

If you requested to purchase only a partial amount of your available service credit and want to purchase the remaining service credit, the cost of the service will be recalculated at current rates, which may cost more. Payments are not accepted after you retire.

You must inform CalSTRS when changing school districts if your payments are made through payroll deductions.

Your service credit purchase must be paid in full prior to your retirement date. Purchased service credit does not post to your account until paid in full. Under certain conditions, members may receive prorated service credit at retirement for amounts already paid.

You may roll over funds from a qualified plan, such as a 403(b), 401(a), 401(k), 457(b) or IRA, for all or a portion of the purchase amount. CalSTRS will provide a rollover request with your billing statement. Rollovers and lump-sum payments may be completed in combination with installment plans but must be completed before beginning tax-deferred payroll deductions.

CalSTRS must receive the signed billing statement along with your payment (lump sum or initial monthly installment) and your payroll deduction or rollover request by the due date on the billing statement.

## Estimating Installment Payments

Interest will be charged on the unpaid portion of your balance if you pay in installments. The regular interest rate is set each year by the Teachers' Retirement Board and is currently 7.5 percent. All payments—principal and interest—made toward the purchase are added to your CalSTRS Defined Benefit retirement account. You can estimate how much your payments could be by using the *Finance Calculator* at *CalSTRS.com/calculators*.

**Requesting and receiving a billing statement does not obligate you to purchase service credit.**

➤ Defined Benefit Supplement funds cannot be used to purchase service credit.

## CalSTRS Resources

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### WEB

CalSTRS.com  
Click *Contact Us* to email  
myCalSTRS.com  
403bCompare.com  
Pension2.com

### STAY CONNECTED



### CALL

800-228-5453  
7 a.m. to 6 p.m.  
Monday through Friday  
916-414-1099  
Calls from outside the U.S.

888-394-2060  
CalSTRS Pension2®  
Personal Wealth Plan

855-844-2468 (toll free)  
Pension Abuse Reporting Hotline



### WRITE

CalSTRS  
P.O. Box 15275  
Sacramento, CA  
95851-0275



### VISIT

Member Services  
100 Waterfront Place  
West Sacramento, CA 95605

Find your nearest  
CalSTRS office at  
CalSTRS.com/localoffices



### FAX

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