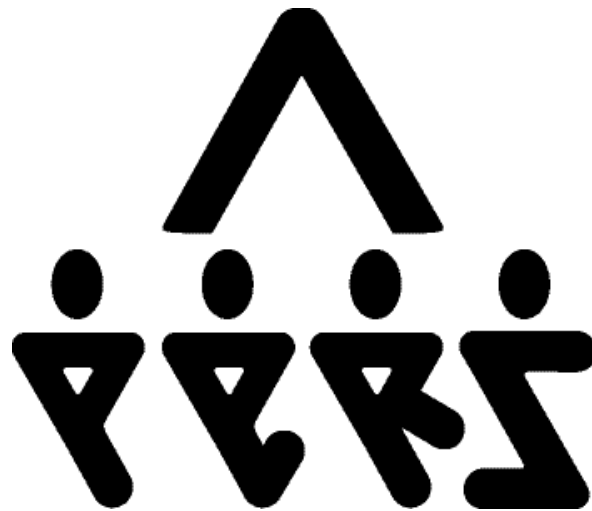


# **North Dakota Public Employees Retirement System**



## **DEFINED BENEFIT PLAN**

### **Provisions for the Purchase of Service Credit and Conversion of Unused Sick Leave**

This brochure is intended to provide general information and may not be considered to be a legal interpretation of retirement law. Statements contained in this brochure do not supercede the North Dakota Century Code or Administrative Code or restrict the authority of the Retirement Board. This information is subject both to changes made by the legislature and rules and regulations established by the Board of the North Dakota Public Employees Retirement System.

## **WHAT IS PURCHASE OF SERVICE?**

The North Dakota Public Employees Retirement System allows active permanent employees of participating employer groups to purchase eligible service credit in specific cases.

Service Credit is an important aspect of your retirement account because each additional month of credit can increase your monthly retirement benefits. Presently, you receive one month of service credit for each month that contributions are received by NDPERS on your behalf.

## **HOW DOES A PURCHASE AFFECT MY RETIREMENT BENEFIT?**

When you retire at normal retirement age, your monthly retirement benefit is computed using a formula: Final Average Salary X the Current Benefit Multiplier X Total Years of Credited Service = Monthly Single Life Retirement Benefit.

When you purchase service, you add to your total years of credited service, which increases the amount of your monthly retirement benefit.

## **WHAT TYPES OF SERVICE CREDIT MAY BE PURCHASED?**

### **Additional Service Credit:**

If you are vested, you may purchase up to 60 months of additional years of service credit for the purpose of increasing retirement and Retiree Health Insurance Credit (RHIC) benefits.

### **Leave of Absence:**

If you are granted an employer approved leave of absence from your position, you will remain on an inactive status. You will not receive service credit for any unpaid leave of absence because no contribution will be made during that time. However, you may purchase service credit for a leave of absence upon returning to work.

Seasonal employees who work less than 12 months each year may purchase their time away upon returning to work.

### **Legislative Service:**

If you served as a member of the Legislative Assembly while a member of NDPERS, you may be eligible to purchase legislative service credit. Service credit must be purchased within one year after the adjournment of the legislative session.

### **Military Service:**

If you served in the military, you may be eligible to purchase up to 48 months of active duty service credit for retirement purposes (copy of DD214 is required).

Special provisions may apply if your covered employment under NDPERS was interrupted because you were drafted or you enlisted for active service in the Armed Forces of the United States. Eligibility and repayment schedules under these circumstances are established under Federal provisions.

### **Previous Public Employment:**

If you have previous public employment as a permanent employee for which you are not receiving retirement credit, you may purchase this past service. The following are eligible types of previous public service that may be eligible:

- Previous service credit in NDPERS defined benefit system that was forfeited by taking a refund/rollover.
- Past employment by a political subdivision participating in NDPERS which your employer did not purchase upon joining NDPERS.
- Employment with a public employer either within or outside the state of North Dakota.
- Employment with the Federal government.

### **Unused Sick Leave Conversion:**

Upon separation of employment, you may convert all or part of your unused sick leave into service credit. One month of service credit will be awarded for each 173.3 hours of unused sick leave. Hours of unused sick leave equal to a fraction of a month are deemed to be a full month for conversion purposes.

## **HOW DO I APPLY FOR THE PURCHASE OF SERVICE/ CONVERTING UNUSED SICK LEAVE?**

Complete and submit a NDPERS Request for Purchase Information SFN 53718 to the NDPERS office. This form is available on the NDPERS website. You will be contacted if additional information or service documentation is required. A

written response containing the cost of purchase will be sent to you within 60 days of NDPERS receiving the request form.

## **WHAT IS THE COST TO PURCHASE SERVICE/CONVERT UNUSED SICK LEAVE?**

The cost to obtain all additional service credit, with the exception of unused sick leave conversion, will be determined through an actuarial cost calculation. The components used to determine the cost calculation are: 1) your date of birth, 2) your current final average salary, 3) the age when you are first eligible for unreduced retirement benefits, 4) number of months being purchased, 5) the plan's current benefit multiplier, and 6) current Retiree Health Insurance Credit (RHIC).

The cost to convert unused sick leave is determined by using your Final Average Salary (FAS) at the time of separation of eligible NDPERS employment multiplied by 15.26% (Main Plan) multiplied by the number of months being converted.\*

\* One month of retirement service will be credited for each 173.3 hours of unused, accumulated sick leave. Partial months will be rounded up to the next full month.

Example:

Step 1. 1000 hours divided by 173.3 = 5.77 rounded up = 6 months available for conversion.

Step 2. FAS multiplied by Total Employee & Employer Contribution multiplied by number of months determined in Step 1 = Cost.

### **Contributions**

<b>Retirement Plan</b>	<b>Employee Contribution</b>	<b>Employer Contribution</b>
Main	7.00%	8.26%
Highway Patrol	13.80%	21.34%
Judges	8.00%	18.66%
State Law Enforcement – BCI	6.00%	10.95%
State Law Enforcement – National Guard	5.50%	10.95%
Law Enforcement with Prior Service	5.50%	10.95%
Law Enforcement without Prior Service	5.50%	9.07%

The number of hours of unused sick leave at your separation of employment is not affected by any employer lump sum sick leave payment policy.

## **WHAT ARE THE PAYMENT PROVISIONS?**

### **Pre-tax Installment Payments**

State of North Dakota employees have the option of making monthly payroll deductions towards the purchase contract on a pre-tax basis. Employees of participating Political Subdivisions have this option if your employer has elected to sign an Employer Agreement making this available to employees. If available, an Irrevocable Salary Reduction Agreement must be completed by you and NDPERS prior to deductions being made on a pre-tax basis.

The IRS requires strict compliance in order to allow the Plan to accept purchase payments through pre-tax payroll deductions. The deduction must be made on a monthly basis, for a specific dollar amount and for a specific time period, which is the length of the purchase contract. The amount of the deduction can not be increased, decreased or suspended at anytime unless due to the employee's termination, retirement, disability or death. Also, supplemental payments can not be made towards the purchase contract and you will be required to make a lump sum payment for the Retiree Health Insurance Credit (RHIC) portion of the purchase prior to entering into the irrevocable salary reduction agreement.

By electing this option, simple interest at the actuarial rate of return will accrue on the unpaid balance. This interest will be taken into consideration when your Irrevocable Salary Reduction Agreement is prepared by NDPERS.

All Payments must be received by NDPERS prior to the 15th of the month to ensure your account has been credited for that month.

### **After-tax Installment Payments**

Unless you are eligible for a direct rollover/transfer contribution or have completed an Irrevocable Salary Reduction Agreement, purchase payments must be paid as after-tax employee contributions. Payments can be made in a lump sum or on an installment basis. Payments may be made on a monthly, quarterly, semi-annual, or annual basis. However, the minimum monthly payment cannot be less than \$50; must be large enough to pay current interest plus a portion of principal; and be an amount necessary to complete the contract while employed within a 15 year time period. You may make a down payment prior to setup of payments on the remaining balance.

By electing this option, simple interest at the actuarial rate of return will accrue on the unpaid balance. There is no penalty assessed if you choose to pay off your purchase contract early. Some employers have the capability to set up an automatic after-tax payroll deduction. Please check with your payroll office to make these arrangements. If this is not an option for you, a personal check or money order can be sent to NDPERS. Please make the check payable to

NDPERS and always include your social security number. Also please write the word "purchase" on the check or money order. NDPERS does not bill for purchase payments.

All payments must be received by NDPERS prior to the 15th of the month to ensure your account has been credited for that month. Payments 30 days late are considered delinquent and may result in the closing of your account.

### **Direct Rollover or Transfer of Eligible Fund Payments**

Under limited circumstances, you may apply to roll over an account with another eligible plan for the purpose of purchasing service credit. Pursuant to IRS requirements, your funds must be certified by the financial institution as pre-tax dollars and must come from a 401(a), 401(k), 403(b), 457, traditional IRA, Federal Employee Retirement System Thrift Savings Plan, or a 401(c) Keogh plan whose deposits came only from a qualified 401(a) or (k). The amount rolled over to NDPERS may not exceed the cost to purchase the retirement benefit portion of the purchase and must be made in a lump sum. You must make a personal payment in a lump sum for the Retiree Health Insurance Credit (RHIC) portion of the purchase.

### **Conversion of Sick Leave**

Payment for the conversion of unused sick leave will be calculated by NDPERS upon receiving proper verification from your payroll office after date of termination/retirement. A letter will be sent to you confirming the cost and the due date. Payment must be made by the 15th of the month following the month of termination and before you receive a retirement annuity. Purchase payments, conversion of unused sick leave payments, and accrued interest are not tax deductible. Payment must be an after-tax employee contribution, unless you are eligible for a direct rollover contribution.

Purchase payments, conversion of unused sick leave payments, and accrued interest are not tax deductible.

## **HOW ARE PURCHASES/CONVERTED SICK LEAVE CREDITED TO MY RETIREMENT ACCOUNT?**

The North Dakota Century Code provides you with both a retirement benefit and a Retiree Health Insurance Credit (RHIC). Your purchase cost is allocated between both of these funds. These amounts will be reflected on your NDPERS annual statement. The Retiree Health Insurance Credit (RHIC) portion of the purchase cost must be an after-tax employee contribution.

The money that you contribute towards purchasing service credit is deposited directly into your member account balance. Your member account balance is one account that consists of all monthly employee contributions, any vested employer contributions, purchase payments and interest. Under the ND

Administrative Code, a member can only withdraw his or her accrued retirement funds upon termination of employment. Members can not access their member account balance prior to termination of employment.

Your purchased service will be credited to your retirement account upon completion of your purchase contract. Any account closed prematurely will be given retirement credit pro-rated according to the money received by NDPERS. It is not possible to continue to make payments after you have separated from employment. Should your current status of employment change, please contact the NDPERS office so proper arrangements can be made.

### **FEDERAL LIMITATIONS**

Your payments for purchase or unused sick leave may be subject to limitations established under Internal Revenue Code Section 415. These limitations may limit after-tax employee contributions in a calendar year to the retirement plan to the lesser of \$61,000 or 100% of includible compensation for 2022. This may limit the amount of service you are allowed to purchase. NDPERS will notify you if it is determined that federal limits may apply to your purchase payment(s).