MICHIGAN OFFICE OF
RETIREMENT SERVICES
Big Plans. Small Steps.
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Service Credit Payment Options

For Public School Employees

You may pay for your purchase with a check or money order, a qualified plan-to-plan transfer, a Tax-Deferred Payment, or a combination of these methods. Read this document to help you decide which payment method works best for you. More information on purchasing service credit can be found on our website at **www.michigan.gov/ORSschools**.

Purchasing with a Check or Money Order

You may pay for all or a portion of the service credit with a cashier's check, a personal check, or a money order (post-tax funds). Refer to your *Member Billing Statement* for more instructions.

Purchasing with a Qualified Plan-to-Plan Transfer

A qualified plan-to-plan transfer is the process of moving money from a qualified (as defined by the Internal Revenue Service) pretax investment account/retirement plan to another qualified plan without incurring taxes or penalties on the money being transferred.

This means you can roll over money from most pretax retirement accounts and use it to purchase service credit. A qualified plan includes a 401(a), 401(k), 403(b), 457, as well as conduit IRAs (Individual Retirement Accounts) from these sources. You **cannot** transfer money from a traditional IRA.

If you decide to purchase any or all of the service credit shown on your *Member Billing Statement* by transferring from a qualified plan, download a *Qualified Plan-to-Plan Transfer Certification (R158X)* or request a form from Office of Retirement Services (ORS).

- It is your responsibility to begin the transfer with your plan administrator.
- The payment must be for the exact amount of the purchase.
- ORS must receive the funds by the due date of the billing statement or, if you are leaving school employment, before your termination date, whichever is first.
- Allow six to eight weeks for your plan administrator to transfer the funds as processing times vary by company.

Purchasing by Tax-Deferred Payment (TDP)

You can request that payments for your service credit purchase be deducted from your wages. This payment method, called a tax-deferred payment (TDP), gives you an easy payment plan plus a tax break. These deductions are not subject to income tax until you start receiving your pension at retirement.

Some employers do not participate in the TDP program or do not allow substitute, part-time, temporary, or intermittent employees to use TDP to buy service credit. Check with your payroll office to make sure this method is available.

Once you establish a TDP agreement to purchase a set amount of service credit, payments must be made through payroll deduction only. Exceptions may apply if you are terminating employment. See *Paying Off a TDP Agreement (R0718C)* and *Payoff Payment Options for a TDP Agreement (R0518C)* for more information.

TDP requirements.

- Your minimum scheduled deduction must be large enough to pay off your balance, plus any accrued interest, in less than 15 years (based on 21 pay periods a year), and never lower than $50. If you are paid on a frequency less than 21 pay periods a year, you will need to increase your payments so that the deduction will ensure a payoff in less than 15 years.
- Your minimum scheduled deduction should not be larger than your gross compensation less any required deductions like taxes, levies, or garnishments. Your payroll officer can help you determine this maximum deduction.
- You are responsible for making sure that the deductions start on time, are correct, and continue each pay period.
- A TDP agreement is binding and irrevocable. You can't decrease or stop your deduction, even if your financial circumstances change, until your agreement is complete or you terminate employment.
- You can increase your deduction. Once you increase your deduction, it can never be decreased.
- You can have multiple TDP agreements at once. Each agreement is calculated based on the cost to purchase service credit at the time the agreement is signed. Each agreement will have its own minimum scheduled deduction.
- If you leave work or retire before your agreement is paid off, you may qualify for partial credit. Visit www.michigan.gov/orsschools, Service Credit—Earning & Purchasing, How to Purchase, for more information.

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Interest on TDP Balances.

Your purchase cost won't change once you and your payroll officer sign the *TDP Agreement.* However, once a TDP agreement has been in effect for at least one full year, any balance you carry past the end of the school fiscal year (June 30) will be assessed eight percent (8%) interest.

	Example 1	Example 2
Date agreement signed	June 1, 2017	July 15, 2017
Original TDP Amount	*$30,000*	*$30,000*
Amount Paid (FY 2017-2018)	***3,297***	***3,297***
Balance on June 30, 2018	*26,703*	***26,703***
8% interest	***2,136***	-
Remaining balance	***28,839***	***26,703***
Amount paid (FY 2018-2019)	***3,297***	***3,297***
Balance on June 30, 2019	***25,542***	***23,406***
8% interest	***2,043***	***1,872***
Remaining balance	***$27,585***	***$25,278***

Example 1. On June 1, 2017, you sign a TDP agreement to buy three years of service credit for $30,000, paying $157 every pay period for 21 pay periods a year. On June 1, 2018, your agreement will have been in effect for one full year. You will be charged interest on your remaining balance starting June 30, 2018.

Example 2. If you sign the agreement on July 15, 2017, it will be in effect for one full year on July 15, 2018. You will be charged interest on your balance starting June 30, 2019.

Deciding how much to have withheld.

There are several factors that can help you decide how much you want to have withheld from your TDP agreement.

- **TDP requirements.** The withholding amount must meet the TDP requirements listed above. Remember, once an agreement is signed, you cannot decrease or stop payments, even if your financial situation changes.
- **Purchase cost/number of years purchased.** In most cases, you can buy part of a year of service credit, up to the maximum amount you are eligible to buy.
- **Career plans**. Plan to have the agreement paid off well in advance of any career change or retirement. Once you stop working for an employer who is a member of the public school retirement system, the TDP ends and you can't purchase the remaining balance.
- **Cost of interest.** Although you must pay off the TDP agreement in less than 15 years, you can save interest charges by paying more than the minimum amount required.

If you pay this amount per pay period	You will pay off the balance in about	And you will pay about
$157 (Minimum Scheduled Deduction)	15 years	$48,679 ($18,679 interest)
$200	9 years	$41,658 ($11,658 interest)

Example. To pay off a $30,000 balance, if you pay an extra $43 a pay period, you will pay off the agreement six years earlier and save $7,000 in interest.

Use the *TDP Calculator* at **www.michigan.gov/orsschools** to review how different payment options will affect your TDP agreement.

TDPs and deferred compensation deductions.

TDP deductions do not count as 403(b) deductions nor do they count against 403(b) deductions. Since TDP deductions are taken before 403(b) deductions, however, they lower the amount of your compensation available to contribute to 403(b) plans.

Your agreement is in effect as long as you're an employee of a Michigan public school.

In most cases, your TDP agreement remains valid while you are on unpaid leave or temporarily off payroll for up to two years as long as an employer-employee relationship exists. Your payroll office will resume your deductions when you return to work. If you change your employer to another Michigan public school, you can transfer your *TDP Agreement* by completing a *TDP Addendum* within 90 days after you have terminated from your previous employer. The addendum transfers your agreement to your new employer and continues the terms of the agreement.

Combining Payment Methods

If you wish to purchase service credit using a lump sum payment (plan-to-plan transfer or check/money order) and also through TDP deductions, complete the transfer or check payment first before you enter into a TDP agreement. Once you receive a receipt for the check or transfer payment, you must then request a new billing statement from ORS in order to begin a TDP agreement.