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

For State Employees

You may pay for your service credit purchase using one or more of the following methods: check or money order, qualified plan-to-plan transfer, or a tax-deferred payment. Read this document to help you decide which payment method best fits your circumstances. Once you decide, follow the step-by-step payment instructions on the back of your *Member Billing Statement*. More information on purchasing service credit can be found on our website at **www.michigan.gov/orsstatedb**.

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). Be sure to follow the instructions on the back of your statement.

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 from these sources. A traditional IRA (Individual Retirement Account) cannot be used to purchase service credit. Your Deferred Compensation 401(k) and 457 plans administered by Voya Financial® are qualified plans.

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

It is important to note the following:

- It is your responsibility to begin the transfer with your plan administrator.
- The transfer amount should not be for more than the amount due on the billing statement.
- ORS must receive the funds by the billing statement due date. Be sure to allow 6-8 weeks for your plan administrator to transfer the funds to avoid any additional cost.
- If you are leaving state employment, ORS must receive the payment before you have terminated.

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 ***tax-deferred payments***, or ***TDP***, gives you an easy payment plan plus a significant tax break. These deductions are not subject to income tax until you begin receiving your pension at retirement.

While the tax advantages are great, you should be aware that a *TDP Agreement*, once initiated, is *binding and irrevocable*. This means that once you have completed the enrollment process with the MI-HR Service Center and deductions have begun, deductions cannot stop until the agreement is complete, or you terminate employment. (*Note*: if you work for Attorney General, Secretary of State, Judicial Branch, or Legislative Branch, please work with your human resource office.)

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 (R0718G)*.

Interest on TDP Balances.

When you and the MI-HR representative sign a TDP agreement your cost for the purchase will not increase as your age, or rate of pay increases. However, once a TDP agreement has been in effect for at least one full year, any balance you carry past September 30 will be assessed eight percent (8%) interest.

For example, if you began a TDP Agreement for $30,000 on October 15, 2006 and paid $8,000 the first year, your balance would be $22,000 as of September 30, 2007. Because your agreement has not been in effect for at least one full year, interest is not charged.

TDP Agreement Origination Amount Oct. 15, 2006	$30,000
Amount Paid	8,000
Balance as of Sept. 30, 2007	22,000

Fiscal Year	2007/08	2008/09	2009/10
Balance as of Oct.1	$22,000	$12,960	$3,197
Amount Paid	10,000	10,000	3,197
Balance as of Sept. 30	12,000	2,960	-
8% Interest Charged (Sept. 30 balance x .08)	960	237	-
TDP Agreement Balance	12,960	3,197	-

You will then begin the new fiscal year, October 1, 2007, with a balance of $22,000. If you pay $10,000 during the fiscal year, you will have a remaining balance of $12,000 as of September 30, 2008. At this time your *TDP Agreement* has been in effect for one full year and eight percent interest will be charged. Your TDP agreement balance of $12,960 (balance as of Sept. 30 plus interest) is carried to the new fiscal year—October 1, 2008. The table to the left illustrates how interest is added to your account at the end of each fiscal year.

Deciding how much to have withheld.

The maximum allowable TDP deduction is your gross compensation, less any required deductions such as social security and Medicare, or other levies or garnishments. The MI-HR Service Center can help you determine your maximum deduction.

Be sure to consider the following when determining your payroll deduction amount:

- While the minimum withholding per *TDP Agreement* is $50, you may want to consider a higher amount to avoid or reduce the impact of interest.
- You can't decrease or stop your deduction even if your financial circumstances change.
- You can increase your deduction on an ongoing basis. However, once increased, you cannot revert to the lesser amount.
- You can have multiple TDP agreements simultaneously. Remember, each new agreement has its own $50 minimum deduction, and will be based on the cost in effect at the time the new agreement is signed.
- There is no minimum or maximum time limit to pay off your agreement; however we encourage you to plan to have your purchase completed well in advance of retirement.
- It is your responsibility to make sure that the deductions have started, are correct, and continue each pay period.
- If you are terminating or retiring before your *TDP Agreement* is paid in full, you may qualify for partial credit. Contact ORS in this situation.

TDPs and deferred compensation deductions.

TDP deductions do not count *as* deferred compensation deductions nor do they count *against* deferred compensation deductions. However, because TDP deductions are taken before 401(k) or 457 deductions, they lower the amount of your compensation available to be contributed to 401(k) and 457 plans.

Your agreement is in effect as long as you're a state employee.

In most instances, your TDP agreement remains valid while you are on an unpaid leave or temporarily off payroll. MI-HR will resume your deductions when you return to work.

If you transfer from one department to another, the agreement is still valid and deductions will continue. However, if you are employed with or transfer to an agency that doesn't participate with MI-HR (Attorney General, Secretary of State, Judicial Branch, and Legislative Branch), it's your responsibility to provide your human resource office in your new department with a copy of your agreement and to make sure that deductions continue to be made.

Combining Your Payment Methods.

You can combine methods of payment to purchase service credit. However, if your combination of payment methods includes tax-deferred payroll deductions, you must ***first*** complete the check or transfer payment. Once you receive a receipt for your check or transfer payment, you must then request a new billing statement from ORS in order to begin a tax-deferred payment agreement.