Service Credit Explained

You earn one year of service credit for 1,000 hours of work during a plan year (July 1 – June 30), provided of course you are participating and contributing to the plan. You cannot earn more than one year of service during a plan year and plan participants who work less than the 1,000 hours receive partial credit. For example, a member who worked 500 hours would receive one-half a year (0.5) of service credit.

There are two ways you might be able to restore or add additional years of service to your account and increase your monthly benefit – repaying a refund or purchasing optional service credit. Let’s take a look at both.

Repaying a Refund

NOTE: While this section refers primarily to School members, Judges and State Patrol participants can also repay a refund to restore service credit. Members in each of these plans may refer to their plan handbook for more detailed information.

Plan members who terminate employment in the Nebraska public schools are eligible to request a refund of their account. Refunds consist of contributions made by the member during participation in the plan, plus interest. Refunds do not include matching contributions made by the school district.

Members who take a refund usually do so in the belief they will never return to work in the Nebraska public schools – but what happens when they do? Once they resume plan participation they will begin accruing “new” years of service but their prior years of service were erased when they took a refund. When they retire, those prior years of service are not used when their benefit is calculated. The good news is those individuals can restore those years of service and increase their benefit by “repaying a refund.”

Optional Service Credit (OSC)

NOTE: OSC is only available for School plan members. Please refer to your plan handbook for full details on eligibility and purchase restrictions.

What if you never took a refund? Obviously you can’t repay a refund if you never received one. There are three other ways to potentially increase your years of service by purchasing what is referred to as Optional Service Credit (OSC). These three methods are Out of State/Omaha, Leave of Absence, and 12 Month Preretirement.

Out of State/Omaha: If you previously participated in a public school retirement plan for a different state or Omaha (OPS), then terminated employment and took a refund, you can purchase years of service in Nebraska to replace all or some of the service you forfeited from the other state or OPS. Out of State/OPS service is limited to the amount of years forfeited, up to a maximum of 10. Credit cannot exceed an amount equal to the total years of service you earn in Nebraska.

Leave of Absence: You may purchase service credit for a qualified leave of absence. You may purchase time less than or equal to the leave. To be qualified, the leave cannot exceed four years in length, was authorized by your board of education or the school district, and you must have returned to plan participation (employment) within one year after completing the leave.

12 Month Preretirement: You may purchase up to 5 years of additional service when you are within 12 months of retirement. You must already have a minimum of 5 years of service credit. You must be eligible to draw a monthly benefit (retire) and have entered into a written agreement to do so within 12 months.

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Effective July 1, NPERS has moved to electronic disbursement of all monthly retirement benefits. At the March 21 board meeting, the Public Employees Retirement Board approved a new Electronic Disbursement policy, which provides two options for electronic distribution of monthly benefits: direct deposit or a deposit to a prepaid Visa debit card. All new retirees on or after July 1 will be required to provide written authorization selecting one of these two options. The purpose of this policy is to promote safe, confidential, economical, convenient and efficient payments to retired members. Members who are already receiving monthly retirement benefits may voluntarily sign up for either option using NPERS’ Electronic Disbursement Authorization Form.

NPERS has encouraged members to take advantage of direct deposit for many years. Currently, 90% of our members use direct deposit. Direct deposit of funds can be made to any financial institution in the United States and ensures each monthly benefit is deposited on the day of payment.

NPERS now offers retirees the option of a prepaid “ReliaCard” Visa debit card. This debit card has the same functionality as a regular checking account, but members can withdraw funds with the card rather than writing checks or using cash. The Nebraska State Treasurer has contracted with U.S. Bank to provide this service to NPERS plan members who do not have a bank account, or do not want their annuity benefit payments made by direct deposit.

Each month, annuity payments will be automatically “loaded” into the ReliaCard account and all purchases are then deducted from the account balance. Participants can request email or text notifications when funds are posted to their account, or for low balances.

A PIN is required for ATM withdrawals or when requesting cash back with a purchase. Participants will select their own PIN upon activation of the card. Card holders may go online to view account balances, account activity, or to change their PIN. If a PIN is lost or forgotten, members can call the ReliaCard member services number found on the back of the card.

There may be ATM fees assessed when using the ReliaCard to withdraw funds from a “foreign” (non U.S. Bank) ATM. Accounts are protected by the Visa “Zero Liability Policy” and are FDIC insured. Free account information and customer service is available 24 hours a day via the toll free number on the back of the card or online at reliacard.com.

The electronic disbursement option selected at retirement will remain in effect until changed or canceled in writing by the retired member. The member may choose one disbursement method only. To change the method of deposit, a member must complete and sign a new prepaid debit card authorization or direct deposit form and submit to NPERS. Any changes to the direct deposit or prepaid card MUST be received by NPERS 30 days prior to the date scheduled for the annuity benefit payment for which the change is to occur. Both forms are available on our website (npers.ne.gov) or members may request one by calling our office.

"All new retirees... will be required to provide written authorization selecting one of these two options."

Due to the higher cost to purchase OSC, NPERS encourages members to utilize the online OSC estimator before submitting a written request to purchase service. A good approximation of the cost to purchase Out of State/Omaha or 12 Month Preretirement service credit can be obtained using the OSC estimator. An estimate of the cost to repay a refund cannot be calculated using the OSC estimator, but can be obtained using the repayment of refund tables also found on the website — please refer to the two companion articles in this newsletter.

Once you have an estimated cost, you can utilize the benefit estimator found on the website to get an idea how much your monthly benefit will increase by adding additional years of service. Armed with this information, some members may decide purchasing OSC or repaying a refund is a good financial decision, others may find another tax sheltered retirement option such as an IRA or 403(b) to be a better choice. Ultimately only you can make that decision.

**New Electronic Disbursement Policy**

**Choose New ReliaCard or a Direct Deposit to Your Account**

The ReliaCard Visa is a prepaid debit card issued by U.S. Bank. It can be used to make purchases everywhere Visa debit cards are accepted.

- Make a purchase at any retailer that accepts Visa debit cards.
- Pay bills using the Bill Pay feature.
- Make online, phone or mail-order purchases.
- Withdraw cash from a U.S. Bank ATM.
- Obtain cash withdrawals from a teller at any bank or credit union.
- Receive cash back with purchases.

How to Repay a Refund or Purchase Service

If you wish to proceed with the purchase of OSC or repayment of a refund, please write to NPERS and indicate the type and amount (years) of service you wish to purchase. In response, NPERS will provide you an estimated cost, an application, and a Method of Payment form. You must complete and return the application and Method of Payment form to our office before we can determine the final cost. Members are not bound to purchase service after submitting an application if they decide not to purchase.

Due to the time frames involved, NPERS recommends initiating repayment of refund and OSC purchase requests no less than 12 months prior to termination. Completed applications must be received no less than 45 days prior to your termination date. Applications submitted after this time frame will not be accepted. In all circumstances, you must be currently employed and participating in the plan to purchase OSC or repay a refund.

You may pay for service “after tax” in a lump sum or installment payments or you can make “pre-tax” payments via payroll deductions or a rollover from another qualified retirement plan. IRS regulations limit purchases made with after tax dollars to 100% of your gross salary (fiscal year) or $49,000.00, whichever is less. Personal checks are not accepted. Payment must be completed prior to your termination date.

Is It Worth It?

What about the cost to repay a refund or purchase OSC? Adding years of service will increase your monthly retirement benefit, but will it be worth the cost? It’s difficult to answer this question partly due to the variation in price. For example, the cost to purchase OSC is generally higher than repaying a refund. A good starting point is to calculate the cost and compare that to the amount it will increase your monthly benefit.

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School plan members who wish to purchase optional service credit (OSC) can now obtain an estimate of the cost by using the new purchase of service estimator available on our website. The online estimator should be viewed as a helpful tool for members to determine if purchasing OSC “fits their pocketbook.” The estimator provides a close approximation of the cost to purchase additional years of Out of State or 12-month Preretirement service. The estimator will not calculate a cost for Leave of Absence service. Members who wish to purchase Leave of Absence service may contact NPERS in writing for an estimate.

The plan member is responsible for all data entered and online estimates are not stored or tracked by NPERS. Estimates calculated using the purchase of service estimator are not official estimates and NPERS is not bound to honor those amounts. Actual costs will be determined by NPERS upon receipt of a completed application to purchase service. For more information on OSC and how to purchase it, please refer to the companion article in this newsletter.

Members can locate the estimator using the navigation buttons on the left side of the website and clicking on the School Plan Info link:

Scroll down until you find the Optional Service Credit section and look for the School Purchase of Service Estimator link. Clicking on the link will take you to the disclaimer page of the estimator. Read the disclaimer and click I Agree to access the first screen of the estimator.

First Screen:

Enter Type of Service and Date of Birth
Type of Service: 12 Month Preretirement
Date of Birth (MM/DD/YYYY): 10/01/1946

Select Out of State or 12 Month Preretirement from the drop down options. Input your date of birth and click Next.

Second Screen:

Enter your Retirement and Termination date
What is your estimated date of termination? (MM/DD/YYYY): 05/15/2012
What will be your benefit start date? (MM/DD/YYYY): 06/01/2012

Input your anticipated last day of work and the date you will begin drawing your retirement. This screen will not display for Out of State/Omaha estimates.

Third Screen:

Enter your Service Credit and Salary Information
Enter your total years of service: 20
Enter your highest 12 month period of salary, (NO dollar signs or commas): 50000

Enter the total amount of service you will have accumulated in Nebraska at the time of the service purchase. Enter your highest 12 month period of salary. Click Next.

NOTE: The higher the member salary, the higher the cost.

Fourth Screen:

Input the total amount of service you wish to purchase and click Next.

NOTE: The more years you purchase, the higher the cost.

Final Screen:

The estimated cost represents a lump sum payment. Purchases made through payroll deduction or direct installment payments will require an additional finance charge.

IMPORTANT: Do not send payment after obtaining an online estimate. Members who wish to purchase service must contact our office in writing.
The Cost to Repay a Refund

Repaying a refund is the most economical way for School plan members to restore their years of service. The cost is based on the dollar amount of the refund, plus interest or the actuarial assumed rate of return. If you took a refund, you did not receive the matching funds the employer contributed to the plan. Those dollars remained in the plan trust fund and continued to be invested. Consequently you do not have to restore the employer match when repaying a refund.

The School Plan Info page on our website has two tables to help you calculate an estimate of the cost to repay a refund. To use these tables, you need to know the gross amount of your refund and the year it was issued. If you are unsure of this information, call our office and we can assist you.

You can locate these tables using the navigation buttons on the left side of the website and clicking on the School Plan Info link:

Scroll down until you find the Repaying a Refund section and look for the links for the within three years and three or more years tables.

If it has been less than three years since you returned to work in the Nebraska public schools, you will use the factors found on the within three years table. If it has been three years or more, use the three or more years table. To get your estimated cost, locate the year you received the refund and multiply the gross amount of your refund by the factor for that year. This estimated cost represents a lump sum payment. Purchases made through payroll deduction or installment payments will require an additional finance charge.

The factors found on the website are updated once a year but the actual factors used to calculate repayments are adjusted each month. The website will give a good idea of the cost, but the longer a member waits to repay a refund the higher the price. Actual cost of repayment will be determined by NPERS upon receipt of a completed application to repay the refund.

For more information on how to repay a refund, please refer to the companion article in this newsletter. For more details on repaying a refund, please refer to the plan booklet.

Visit the NPERS website! npers.ne.gov