



STATE OF WISCONSIN
Department of Employee Trust Funds

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CORRESPONDENCE MEMORANDUM

DATE: March 1, 2007

TO: Members of the Employee Trust Funds Board, Teacher Retirement Board and Wisconsin Retirement Board

FROM: Robert Weber, DETF Chief Counsel

SUBJECT: Administrative rule for purchase of service credit

The Department is in the process of preparing a proposed rule concerning the purchase of creditable service. The rule is highly technical and lengthy. At this writing, the program staff are still reviewing the draft text. We hope to have the proposed rule ready for publication before the retirement board meetings, and plan to distribute copies of the detailed Analysis at the meeting. If any Board member would also like to see a copy of the proposed text, I will be happy to provide it upon request. No Board action is required at this time. The proposed rule must still undergo a public hearing, then a final draft version will be prepared for submission to the Legislature. Before that happens, the final version of the rule will be brought before the Boards for their approval to proceed with promulgation of the rule.

Under the Wisconsin Retirement System a participating employee may purchase service credit for six different kinds of services:

1. Creditable service that was forfeited by taking a separation benefit or a pre-1982 withdrawal.
2. Credit for services rendered to a federal, state or local governmental employer that does not participate in the WRS, excluding military service but including services rendered to a current WRS employer prior to that employer participating in the WRS.
3. Credit for the 6-month qualifying period required for Wisconsin Retirement Fund employees until January 1, 1973.
4. Credit for a pre-08/31/1967 teacher improvement leave certified by the U.W. Board of Regents.
5. Previously uncredited pre-1988 service in certain executive positions that was excluded from credit under the Wisconsin Retirement Fund because the employee was over 62.
6. Previously uncredited service before the 1957-58 school year as a "junior" teacher.

Reviewed and approved by David A. Stella, Deputy Secretary.

Signature

Date

Board	Mtg Date	Item #
WR	3/15/2007	4
TR	3/15/2007	5
ETF	3/16/2007	4

The existing rules concerning purchase of service credits are WIS. ADMIN. CODE §§ ETF 20.14, 20.15, 20.16 and 20.18. The proposed rulemaking is intended to bring together the ETF regulations on purchased service into a single section of the Administrative Code (proposed § ETF 20.17), retain the codification of some key past policies, revise current language to reflect differences resulting from the new statute or changes in DETF policy, and to correct statutory and regulatory cross-references and delete provisions in the current rules that are obsolete due to law changes since the existing rules were last revised in 1997.

In particular, this rule-making interprets WIS. STAT. § 40.285 which was created in 2003 in response to the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRA). The underlying federal EGTRA was most recently affected by the Pension Protection Act of 2006 and WIS. STAT. § 40.285 amended in 2006. The rule-making covers purchases of service credit generally as well as each type of service purchase in particular.

This rule-making will satisfy the statutory requirements that the Department must specify, by rule, how a purchase of forfeited service, by a participant who forfeited service under more than one category of employment, will be prorated in the event of different kinds of payment shortfalls. The rule provides that the most valuable service for computing a formula benefit will be credited first. This rule-making also addresses another statutory mandate, requiring the DETF to establish, by rule, the rates to be applied to purchase other governmental service so that the cost reflects the actual present value of the service credit purchased. The rule-making provides that the actuary will determine and periodically review and revise the rate, and specifies factors to be considered by the actuary.

This rule-making clarifies the long-standing DETF policy that buying credit for service simply adds the amount of service credit purchased to the person's total creditable service, going forward. The service credits purchased affect the calculation of a formula annuity benefit and certain similar calculated death and disability benefits. However, buying creditable service has no retroactive effect and therefore does not do any of the following:

- Undo any effects of the statutory requirement that a person who takes a separation benefit must thereafter be treated as a new employee for all ch. 40 purposes upon subsequent employment by a participating employer.
- Establish an earlier date of participation in the WRS or restore a participant account as if it had never been closed.
- Restore or entitle the purchaser to any benefits or rights associated with being a participant in the WRS or a member of any predecessor retirement system, at the time the services for which credit is being purchased were actually performed.
- Circumvent the statutory limit of 1.0 years of creditable service for any annual earnings period.

This rule-making codifies the actuarially sound and long-standing DETF policy that credit for service forfeited by taking a separation benefit or otherwise withdrawing funds is not available for purchase as forfeited service if the individual was paid both the contributions required from an employee, including those "picked up" by the employer, and the deposits or contributions required from the state or the employer.

It remains the general policy, reflected in this rule-making, that the purchase of credit for a qualifying period, teacher improvement leave, and previously uncredited service as a junior teacher or executive participating employee are all intended to be one-time purchases of the entire available credit with payment-in-full accompanying the application. However, the rule-making recognizes that this will not be true in all cases. The new service purchase statute created a new payment option, a plan-to-plan transfer from another qualified plan. The statute specifies that if there is any shortfall in a plan-to-plan transfer, that is not made up by the employee, then the service purchase may be prorated to match the funds actually received. So the rule provides for the prorating of purchases of credit for a qualifying period, teacher improvement leave, or previously uncredited service as a junior teacher or executive participating employee and also for the possibility of subsequent purchases of the same type.