

PERA service credit can be purchased using tax-deferred (pre-tax) money from certain plans as allowed by the Internal Revenue Code (IRC). If you have an account in one of these plans and want to use it to fund all or part of your purchase cost, you will need to contact that plan administrator to ensure that a distribution can be made from that plan and received by PERA by your *Service Credit Purchase Agreement* due date.

Tax-deferred money from the following plans can be used to purchase service credit:

401(a) plans: Many public and private sector defined benefit and defined contribution pension plans are qualified under IRC section 401(a). This includes PERA's Defined Contribution (DC) Plan (if eligible).

401(k) plans: These plans are set up by many private sector employers and a few public sector employers for employees to invest tax-deferred dollars for retirement. This includes PERA's 401(k) Plan.

401(c) Keogh plans: A Keogh is a private sector pension plan set up by self-employed individuals under IRC section 401(c).

457 Governmental Deferred Compensation plans: These plans are set up under IRC section 457 by many public sector employers (usually states or municipalities) for employees to invest tax-deferred dollars for retirement.

403(b) Tax Sheltered Annuities/403(b)(7) Custodial Accounts: These plans are set up under IRC section 403(b) by many educational institutions and nonprofit employers for employees to invest tax-deferred dollars for retirement.

In addition, tax-deferred money from the following individual retirement accounts or annuities (IRAs) may be used to purchase service credit:

Traditional IRAs: A regular IRA that you maintain and to which you have contributed only tax-deferred money.

Conduit IRAs: A Conduit IRA is a special IRA under IRC section 408(a) or 408(b) that contains only tax-deferred money distributed from one of the five

pension plans listed on the left and includes interest on that amount.

SIMPLE-IRA: After two years of participation in a SIMPLE-IRA, a rollover of the SIMPLE-IRA can be used to purchase service credit.

Roth IRAs and Coverdell Education Savings Accounts cannot be used to purchase service credit.

Tax-paid (after-tax) money cannot be accepted by PERA via a rollover or transfer. Any tax-paid money you may have in your plan or IRA must be paid to you and then you may write a personal check to PERA.

Rollover Documentation

Before PERA can accept tax-deferred money, you must provide PERA with documentation of the source of the money. (If the money is coming from PERA's 401(k) Plan, PERA's DC Plan, or the Federal Thrift Savings Plan, this is not required.) If you plan to use acceptable tax-deferred money, your *Service Credit Purchase Agreement* will include a form for your plan administrator or IRA custodian to complete and return to PERA along with or in advance of your distribution check. If PERA unknowingly receives money that was not from one of those plans or accounts, you are responsible for any taxes assessed or penalties charged to you by the IRS.

If the plan issued your distribution check and withheld 20 percent of your distribution for federal income tax, you may make up the amount withheld from other sources when rolling the money into PERA.