

UCRP Service Credit Purchase Guide

UNIVERSITY
OF
CALIFORNIA

KEY DEADLINES

AS SOON AS YOU THINK YOU MAY WANT TO PURCHASE SERVICE CREDIT:

- Use the service credit purchase estimator on AYS Online (<https://atyourserviceonline.ucop.edu/ayso/>) to give you a general idea of the cost of a service credit purchase and the potential increase in your retirement benefit as a result of the service credit purchase.
- Talk with a benefits representative or a Retirement Administration Service Center representative who can advise you as to whether or not the service credit purchase option is available and appropriate for you. In general, the sooner you begin a service credit purchase, the less it may cost you. See page 17 for contact information.

AFTER YOU'VE RECEIVED THE ESTIMATE OF THE COST OF YOUR SERVICE CREDIT PURCHASE:

- If you still want to pursue a service credit purchase, ask the Retirement Administration Service Center for a formal service credit purchase calculation and election packet by submitting the UCRS 169 form with the required documents.

AFTER RECEIVING YOUR SERVICE CREDIT PURCHASE ELECTION PACKET:

- Submit your election form by the deadline indicated in the packet. Your payment(s) must clear the UCRP correspondent bank on or before the deadline identified in your election packet, or you will owe additional interest.
- If you choose the trustee-to-trustee or rollover payment option, submit the required forms to the appropriate institutions.

If you take a leave from UC, or take part in a workforce reduction program, you may be able to purchase service credit for your time away. You may also purchase service credit if you return to UC after having previously received a refund of your University of California Retirement Plan (UCRP) contributions. Purchasing service credit is likely to increase the benefit you'll receive from UCRP, since your UCRP benefits are based, in part, on the amount of service credit you have.

This booklet explains how the service credit purchase (formerly known as “buyback”) provisions work, your options for paying for a service credit purchase and how to purchase UCRP service credit. It also summarizes some important points to consider as you decide whether a service credit purchase is a good investment for you. While this booklet provides information about service credit purchase provisions, we strongly encourage you to speak with a benefits counselor and your tax advisor before beginning a service credit purchase.

Please note that this is a summary of your benefits only; additional requirements, limitations and exclusions may apply. Refer to applicable plan documents and regulations for details. The plan document and other applicable UC policies will take precedence if there is a difference between the provisions therein and those of this document.

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Service Credit Purchase Basics

A service credit purchase is a payment that you can make to the UC Retirement Plan to obtain service credit for periods during which you were temporarily laid off or on an approved leave of absence, including a sabbatical. See below for the full list of approved leaves.

You can also make a service credit purchase to restore service credit that was forfeited if you took a refund of your UCRP accumulations following a previous period of employment.

Your years of service credit are used to calculate your pension benefit when you retire, so purchasing service credit can increase your benefit.

ADVANTAGES OF A SERVICE CREDIT PURCHASE

Purchasing service credit is likely to increase the UCRP benefits you or your survivors are eligible to receive, if they are based in part on service credit. These benefits may include:

- Retirement income (or lump sum cashout, if you are eligible for this option*)
- Disability income (however, service credit you purchase for approved leaves does not help you meet the minimum service requirement to be eligible for disability income)
- Benefits paid after your death to your spouse or other survivor

Additionally, a service credit purchase counts toward vesting in UCRP and toward eligibility for preretirement survivor income, a monthly payment made to eligible survivors of active members who die before they retire, if applicable.

To learn more about how service credit affects your UCRP benefits, please see the UCRP summary plan description that applies to you:

- *A Complete Guide to Your UC Retirement Benefits for Faculty and Staff Eligible on or after July 1, 2016* (ucal.us/guidetoretirementben)
- *UC Retirement Plan Summary Plan Description for 2013 Tier Members* (ucal.us/2013tiersummary)
- *UC Retirement Plan 1976 Tier Summary Plan Description* (ucal.us/1976tiersummary)

A SERVICE CREDIT PURCHASE IS IRREVOCABLE

Once you make the commitment to start a service credit purchase, you can't cancel it unless you leave UC, and you can't change the amount of the payments. It's not possible to get a refund of any of your service credit purchase payments as an active employee.

COST CONSIDERATIONS

Purchasing service credit can be expensive. Because a service credit purchase is irrevocable, you'll want to be sure that it's a good investment for you. It's possible, for instance, that you might make better progress toward your retirement goals by investing the same amount of money elsewhere. The section "Is a Service Credit Purchase the Best Place for Your Money?" on page 15 can help you do a cost/benefit analysis of your own situation. UC strongly recommends that you consult a financial and/or tax advisor, too.

ELIGIBILITY

You must be an active UCRP member, on pay status at UC, to elect a service credit purchase. Also, to purchase service credit for certain types of leaves you must have five years of active participation in UCRP except if you pay with a trustee-to-trustee transfer as described on page 14. For more on this, see "Service Credit Purchase for Approved Leave: How It Works," on page 5.

TIMING

You may start a purchase any time you're an active UCRP member on UC pay status. There's no official deadline. But the sooner you begin, generally the less a service credit purchase may cost you.

You must be on active UC pay status until you've completed your payments.

THE SERVICE CREDIT PURCHASE OPTION APPLIES TO:

APPROVED LEAVES, INCLUDING:

- Leave without pay or partially paid
- Partially paid or unpaid sabbatical
- Extended sick leave
- Temporary layoff
- Furlough (except during a partial-year career appointment);

REDUCTION IN WORKFORCE PROGRAMS, INCLUDING:

- Incomplete Time Reduction Plan (TRIP) agreement or completed TRIP agreement of less than 75 percent time
- A reduction in appointment under Temporary Reduction in Time (TRIT) from July 1, 1993 to Oct. 28, 1993;

* See the *Lump Sum Cashout Fact Sheet* at ucal.us/lumpsumcashout for information about eligibility.

Service Credit Purchase for Approved Leave

PREVIOUS UCRP MEMBERSHIP:

- An earlier period of UC employment for which you received a refund of your UCRP accumulations

NONCONTRIBUTORY OFFSETS:

- To eliminate the noncontributory (Plan 02) offset. (This is likely to affect you if you were an active UCRP member between July 1, 1966, and June 30, 1971); and
- To eliminate the leave offset. (This offset affects everyone who took an approved leave between July 1, 1966, and June 30, 1971.) To learn more about the noncontributory offsets, please see “Service Credit Purchase to Eliminate Noncontributory Offsets,” page 12.

THE SERVICE CREDIT PURCHASE OPTION DOES NOT APPLY TO:

- Any break-in-service period (e.g., time when you were not a UC employee)
- An approved leave of absence of less than four consecutive weeks
- Any period of ineligible service, such as casual/restricted or temporary employment, or an indefinite layoff
- Any furlough during a partial-year career appointment
- Completed TRIP agreements of 75 percent time or more (You receive 100 percent service credit for these periods**)
- A reduction in appointment other than under TRIT
- Any period in which you earn benefits from a public pension plan such as CalPERS or CalSTRS
- Any period that preceded a lump sum cashout
- Any period of military leave (You may receive full service credit without making contributions**)
- A distribution of your Capital Accumulation Plan (CAP) balance or from the DC, 403(b) or 457(b) Plans
- Completed Staff and Academic Reduction in Time (START) agreements (You receive service credit for these periods)

On the following pages, we'll walk you through examples of four different types of service credit purchase.

** Service credit for completed TRIP agreements or for military leave does not get recorded automatically. To have your records updated, submit a *Service Credit Verification Request* form (UBEN 132), (ucnet.universityofcalifornia.edu/forms/pdf/uben-132.pdf), along with the documentation requested on the form, to the Retirement Administration Service Center.

HOW IT WORKS

The Internal Revenue Code (IRC) defines two types of leave, Restricted and Unrestricted Purchase Leaves.

For some types of approved leave (Unrestricted), there's no limit to the amount of service credit you can purchase. These leaves include:

- Parental leave
- Medical leave
- Sabbaticals

For all other types of approved leave, which are considered Restricted, you must have at least five years of active participation in UCRP and you are limited to purchasing five years of service credit.

If you pay for a Restricted Purchase Leave with a trustee-to-trustee transfer from a UC 403(b) or 457(b) plan (See “Paying for a Service Credit Purchase,” page 14), the limitations don't apply to you. You may purchase service credit even if you have less than five years of active participation in UCRP, and you may purchase more than five years of service credit. Contact the Retirement Administration Service Center or your Benefits Office to find out how the rules may affect your situation.

Do you also belong to another public pension plan?

If so, and if your leave began July 1, 1997 or later, you're not allowed to accrue UCRP service credit while you accrue service credit in any other publicly funded defined benefit plan, such as CalPERS or CalSTRS. This restriction applies to federal, state, city or county retirement systems.

If you accrue service credit in another such plan during your leave, you may not purchase service credit for the same period in UCRP unless you've received a refund of all contributions you've made to the other plan and will not receive a benefit from that plan for the same period that you are purchasing UCRP service credit. You'll need to certify this on the *Service Credit Purchase Information Request* form (UCRS 169), available online at ucal.us/UCRS169 or from your Benefits Representative.

These restrictions don't apply to defined contribution plans, such as 401(k) or 403(b) plans. If you've contributed to this type of plan during a leave from UC—with or without matching employer contributions—you may purchase UCRP service credit for your leave period.

Service Credit Purchase for Approved Leave

LENGTH OF A SERVICE CREDIT PURCHASE FOR APPROVED LEAVE

The minimum period for which you can purchase service credit is four consecutive weeks except if a shorter period is required to vest or is required by law. Consecutive leaves are considered one leave; a leave ends when you return to UC service as an active member in UC pay status.

If you elect a service credit purchase for a leave that lasted less than a year, in most cases you must purchase service credit for the whole leave period (but see exception above).

If your leave lasted a year or longer, you have the option to purchase service credit in full-year increments. For example, for a 2½ year leave, you may purchase one, two, or 2½ years of service credit. If you complete a service credit purchase for a portion of your leave, you can purchase an additional portion later.

COST OF A SERVICE CREDIT PURCHASE FOR AN APPROVED LEAVE

The cost of purchasing service credit for your leave varies depending on when the leave occurred, its length, and how long you wait before electing a service credit purchase.

In most cases, if you elect the service credit purchase within three years of returning from your leave, your cost will be calculated using what's called the Plan Normal Cost Rate method. If you elect a service credit purchase after three years, your cost will be based on the Individual Actuarial Cost.

PLAN NORMAL COST RATE METHOD

This method applies the Normal Cost Rate in effect at the time your cost is calculated. (The "normal cost" is defined as the annual cost of a member's UCRP benefits earned over his or her career at UC.) It applies this rate to the salary you would have received if you hadn't been on leave, plus interest. The interest is computed using the Plan's assumed earnings rate at the time of your election, currently 7.25 percent. The interest is charged from the date you return to work until the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date.

The Plan Normal Cost Rate may change from year to year. For 2018, the Plan Normal Cost Rates are:

- 2016 Tier Members (with or without Social Security): 15.98%
- 2013 Tier Members (with or without Social Security): 16.19%
- Modified 2013 Tier Members: 17.17%
- 1976 Tier Members (with or without Social Security): 18.58%

- Safety Members: 25.03%
- Tier Two Members: 9.29%

See page 7 for an example of a service credit purchase calculation using the Plan Normal Cost Rate method.

INDIVIDUAL ACTUARIAL COST METHOD

This method most closely captures the actual cost of the added benefit you'll receive from your service credit purchase. It uses your age and salary rate at the time of election, along with specified mortality tables, to calculate the present value of the additional retirement benefit that will result from the service credit purchase. In general, the Individual Actuarial Cost method produces higher costs than the Plan Normal Cost Rate method.

See page 7 for an example of the Individual Actuarial Cost method.

HOW COSTS ARE CALCULATED BASED ON THE TIMING OF A LEAVE

The beginning and ending dates of your leave also affect how your cost is calculated.

FOR LEAVES BEGINNING ON OR AFTER JULY 1, 1997:

- If you elect to purchase service credit within three years of returning from the leave, your cost will be based on the Plan Normal Cost Rate for the first two years of leave. (See examples 1A and 2A on pages 7 and 8.) The cost of any additional service credit beyond two years will be based on the Individual Actuarial Cost Method. (Example 3 on page 9 shows a calculation of a five-year service credit purchase based on a combination of the Plan Normal Cost Rate and Individual Actuarial Cost methods.)
- If you elect to purchase after three years, your cost for the full purchase will be based on the Individual Actuarial Cost method. (See examples 1B and 2B on pages 7 and 8.)

FOR LEAVES BEGINNING AFTER NOV. 1, 1990, AND BEFORE JULY 1, 1997:

- If you elect a service credit purchase within three years of returning from leave, your cost will be based on the Plan Normal Cost Rate. (See examples 1A and 2A on pages 7 and 8.)
- If you elect your service credit purchase more than three years after returning from leave, your cost will be based on the Individual Actuarial Cost method. (See examples 1B and 2B on pages 7 and 8.)

FOR PORTIONS OF LEAVES OCCURRING BEFORE NOV. 1, 1990:

- If you elected your service credit purchase within three years of returning from leave, you pay the sum of your own and UC’s contributions that would have been made if you hadn’t been on leave, plus interest. The contribution rates differ depending on the dates of the leave. Your benefits representative or the Retirement Administration Service Center can help you figure out the specifics.

For these leaves or portions of leaves, interest is computed using the Plan’s assumed earnings rate at the time of your service credit purchase election (currently 7.25 percent). Interest is charged from the date you return to work until the payment due date.*

- If you elect a service credit purchase after three years of returning from leave, your cost is based on the Individual Actuarial Cost method. (See examples 1B and 2B on pages 7 and 8.)

EXAMPLES OF SERVICE CREDIT PURCHASE COST CALCULATIONS

The examples below are based on provisions for 1976 Tier members; 2016 Tier, 2013 Tier, and other members would pay a different amount for a service credit purchase. Call the Retirement Administration Service Center for details.

Examples 1 and 2 compare the cost of using the Plan Normal Cost Rate method to the cost of using the Individual Actuarial Cost method. Because age is also a significant factor in the Individual Actuarial Cost calculation, examples for service credit purchases at age 60 and at age 35 are presented.

EXAMPLE 1 — PLAN NORMAL COST RATE METHOD VS. INDIVIDUAL ACTUARIAL COST METHOD

If you are a 1976 Tier member with Social Security and age 60 at time of purchase.

A. Plan Normal Cost Rate Method (within three-year window)	
Service credit	2 years
Approved leave period	12/31/11–12/31/13
Salary rate (at time of leave)	\$5,500
Salary rate (at time of purchase)	\$6,200
Normal Cost Rate	18.58%
Total Normal Cost: 12 months x \$5,500 x 18.58% x 2 years	\$24,526
Interest @ 7.25%* (estimate only)	\$730
Estimated Total Cost using Plan Normal Cost Rate Method:	\$25,256
Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$303

B. Individual Actuarial Cost Method (beyond three-year window)	
Service credit	2 years
Approved leave period	12/31/11–12/31/13
Salary rate (at time of service credit purchase)	\$6,200
Actuarial Cost Factor (for member coordinated with Social Security)	32.18% of salary
Total Cost using Individual Actuarial Cost Method: 12 months x \$6,200 x 32.18% x 2 years	\$47,884
Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$303

* Amount of interest will vary depending on the Plan’s assumed interest rate and the amount of time between the date you return to work and the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date.

Service Credit Purchase for Approved Leave

EXAMPLE 2 — PLAN NORMAL COST RATE METHOD VS. INDIVIDUAL ACTUARIAL COST METHOD

If you are a 1976 Tier member with Social Security and age 35 at time of purchase.

A. Plan Normal Cost Rate Method (within three-year window)		B. Individual Actuarial Cost Method (beyond three-year window)	
Service credit	2 years	Service credit	2 years
Approved leave period	12/31/11–12/31/13	Approved leave period	12/31/11–12/31/13
Salary rate (at time of leave)	\$4,800	Salary rate (at time of service credit purchase)	\$6,200
Salary rate (at age 60)	\$8,000	Salary rate (at age 60)	\$8,000
Normal Cost Rate	18.58%	Actuarial Cost Factor (for member coordinated with Social Security):	17.72% of salary
Total Normal Cost: 12 months x \$4,800 x 18.58% x 2 years	\$21,404	Total Cost using Individual Actuarial Cost Method: 12 months x \$6,200 x 17.72% x 2 years	\$26,367
Interest @ 7.25%* (estimate only)	\$730	Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$393
Estimated Total Cost using Plan Normal Cost Rate Method	\$22,134		
Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$393		

* Amount of interest will vary depending on the Plan's assumed interest rate and the amount of time between the date you return to work and the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date.

EXAMPLE 3 — PURCHASE OF FIVE YEARS OF SERVICE CREDIT

If you are a 1976 Tier member with Social Security and age 59 years, 5 months at time of purchase and you elect to purchase service within three years of returning from leave. The cost will be based on Plan Normal Cost Method Rate for the first two years and Individual Actuarial Cost Method for the remaining three years.

A. You purchase 2 years of service credit at Normal Cost

Service credit	2 years
Approved leave period	7/1/08–6/30/10
Salary rate (at time of leave)	\$5,500
Salary rate (at age 60)	\$6,200
Normal Cost Rate	18.58%
Total Normal Cost: 12 months x \$5,500 x 18.58% x 2 years	\$24,526
Interest @ 7.25%* (estimate only)	\$2,557
Estimated Total Normal Cost and Interest for first 2 years of service credit purchase	\$27,083

B. You purchase remaining 3 years under Individual Actuarial Cost

Service credit	3 years
Approved leave period	7/1/10–6/30/13
Salary rate (at time of service credit purchase)	\$5,800
Actuarial Cost Factor (for member coordinated with Social Security)	31.40% of salary
Total Actuarial Cost: 12 months x \$5,800 x 31.40% x 3 years	\$65,563
Estimated Total Cost = A (Estimated Total Normal Cost: \$27,083) + B (Actuarial Cost: \$65,563)	\$92,646
Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$758

* Amount of interest will vary depending on the Plan's assumed interest rate and the amount of time between the date you return to work and the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date.

Service Credit Purchase for Previous UCRP Membership

HOW IT WORKS

If you left UC employment and received a refund of your UCRP accumulations, you've effectively canceled out your previous UCRP service credit and forfeited your UCRP benefits for that period. But if you return to UC employment and active UCRP membership, then you may purchase service credit for your previous period of UCRP membership.

If you were a UCRP member either from:

- July 1, 1966 to June 30, 1971*; or
- Nov. 1, 1990 to April 1, 2010

you may not have contributed to UCRP during all or part of your employment.

If you made no contributions to UCRP during your entire previous employment—and therefore received no refund of UCRP accumulations—no payment is required. However, reinstatement of your service may require a written request. Consult with a benefits representative or the Retirement Administration Service Center to see if your situation requires any action on your behalf.

Similarly, if your previous UCRP membership was in Tier Two, you made no contributions to UCRP, so no payment is required. If you wish to convert your Tier Two status, consult with a benefits representative.

Be aware that if you contributed to UCRP during any part of your earlier employment and received a refund of your accumulations, you can't receive credit for any part of the service unless you make payment through a service credit purchase. For example, if you previously worked for UC from 1985 to 1995, you may have received a refund of accumulations in, say, 1996. While there were no required UCRP contributions from Nov. 1, 1990 through 1995, you were still earning interest on your earlier contributions. Your refund would have included both the contributions and the interest earned up to the time of the refund. This means that in order to receive service credit for the 1985–95 period, you must make payment through a service credit purchase.

COST OF SERVICE CREDIT PURCHASE FOR PREVIOUS UCRP MEMBERSHIP

If you choose to purchase service credit for previous UCRP membership, you must purchase the entire period of membership. The cost of this type of service credit purchase depends on when you elect it.

If you elect the service credit purchase within three years of returning to UC employment, the cost is the amount of the refund plus interest. The interest is computed using the Plan's assumed earnings rate at the time of your service credit purchase election; it's currently 7.25 percent. Interest is charged from the date of the refund until the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date.

If you elect the service credit purchase more than three years after returning to UC employment, your cost will be calculated based on the Individual Actuarial Cost method. The following example compares the cost of a service credit purchase within the three-year window and beyond. **It illustrates how much more expensive it is to purchase service credit outside the three-year window.**

* The period 7/1/66–6/30/71 is known as the noncontributory (Plan 02) period. See "Service Credit Purchase to Eliminate the Noncontributory Offsets" on page 12.

EXAMPLE 4 — SERVICE CREDIT PURCHASE FOR PREVIOUS UCRP MEMBERSHIP

In this example, a 60-year-old UCRP 1976 Tier member with Social Security returns to UC employment in August 2017 and immediately wants to redeposit contributions made during a four-year period of prior service. Part of this period is after April 1990, when members did not make contributions.

A. Amount refunded plus interest

(Member is within three-year window)

Service credit reestablished for period	1/1/88–12/31/91
Service credit	4 years
Refund amount	\$4,500
Interest @ 7.25%* (estimate only)	\$18,140
Estimated Total Cost including interest	\$22,640
Current salary rate	\$5,000
Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$487

B. Individual Actuarial Cost

(Member is beyond three-year window)

Service credit reestablished for period	1/1/88–12/31/91
Service credit	4 years
Current salary rate	\$5,000
Actuarial Cost Factor (for member coordinated with Social Security)	32.18% of salary
Actuarial Cost of Service Credit Purchase: 12 months x \$5,000 x 32.18% x 4 years	\$77,232
Benefits of Service Credit Purchase: Estimated increase in monthly retirement benefit payable at age 60 (or actual age if older)	\$487

* Amount of interest will vary depending on the Plan's assumed interest rate and the amount of time between the date you return to work and the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date.

Service Credit Purchase to Eliminate the Noncontributory Offsets

If you were an active UCRP member between July 1, 1966 and June 30, 1971, chances are that you earned service credit without contributing to the Plan. That's because during that period, members weren't required to contribute unless they had been a UCRP member for at least one year and had reached age 30. (Members who didn't meet these criteria had the option to contribute, but most didn't.) Also, if you went on leave, including military leave, neither you nor UC contributed during your absence, although you still earned service credit.

This period is known as the noncontributory or Plan 02 period.

Plan 02 members were allowed to earn UCRP service credit during this time; however, in exchange for not making required UCRP contributions, they will have their benefits reduced at retirement to account for the contributions they (and, in the case of a leave, UC) didn't make. These reductions are called the noncontributory offsets.

You have the option, through a service credit purchase, to eliminate any noncontributory offset that applies to you.

This type of service credit purchase has no effect on any UCRP disability income for which you may become eligible.

PLAN 02

If you were an active UCRP member and made no contributions to UCRP during some portion of the noncontributory period, UC established an account, known as a Plan 02 account, to track the amounts that would have been deducted from your paychecks if you had contributed. Over the years, interest has been calculated on these amounts, using UCRP's assumed earnings rates.

When you retire, your benefit may be reduced by the amount in your Plan 02 account. This reduction is called the noncontributory offset, or Plan 02 offset.

When you are ready to retire, UC calculates your benefit in two ways to determine how much your retirement benefit will be reduced:

- A. Basic retirement income is calculated based on your total service credit. The Plan 02 offset is then calculated and subtracted from your basic retirement income. (See "How the Plan 02 offset is calculated," to the right.)
- B. Your service credit is reduced by the noncontributory service and then basic retirement income is calculated.

Your benefit will be the greater of A or B. (See Example 5 on page 13.)

LEAVES DURING THE NONCONTRIBUTORY PERIOD

If you took a leave between July 1, 1966, and June 30, 1971, you earned service credit even though neither you nor UC contributed to UCRP during your absence.

When you retire, your benefit will be reduced to account for the total contributions that would have been made by both you and UC, plus the interest that would have been earned. This reduction is called the leave offset.

SERVICE CREDIT PURCHASE TO ELIMINATE PLAN 02 AND/OR LEAVE OFFSETS

If you're an active UCRP member, you can eliminate these offsets through service credit purchase at any time.

Doing so may increase your future UCRP retirement income, lump sum cashout, if eligible, and postretirement survivor benefits. The noncontributory offsets don't affect UCRP disability income or eligibility for UC-sponsored medical and dental coverage. For more information about your UCRP benefits, please see the UCRP summary plan description that applies to you:

- *A Complete Guide to Your UC Retirement Benefits for Faculty and Staff Eligible on or after July 1, 2016* (ucal.us/guidetoretirementben)
- *UC Retirement Plan Summary Plan Description for 2013 Tier Members* (ucal.us/2013tiersummary)
- *UC Retirement Plan 1976 Tier Summary Plan Description* (ucal.us/1976tiersummary)

How the Plan 02 offset is calculated

Your Plan 02 account total as of your retirement date is divided by a life expectancy factor—called the single premium factor, or SPF—for your age at retirement. The SPF changes from time to time, based on the UCRP actuarial equivalence basis in effect at the time.

The amount of the offset can vary a lot, depending on your circumstances. Generally, the longer you worked without contributing to UCRP, the higher the Plan 02 total and the greater the offset.

COST OF SERVICE CREDIT PURCHASES TO ELIMINATE PLAN 02 AND/OR LEAVE OFFSETS

To eliminate the Plan 02 offset, you must pay a portion of the total shown in your Plan 02 account. The interest is included in the total.

To eliminate the leave offset, you must pay the total contributions for your leave period plus interest. Interest is computed at UCRP's assumed earnings rates in effect during your leave and is charged to the payment due date. Additional interest will be required if your payment clears the UCRP correspondent bank after the due date. The assumed earnings rate is now 7.25 percent.

To eliminate the Plan 02 or leave offset you are limited to the lump sum after-tax payment only. (The trustee-to-trustee transfer or direct rollover option is not available for Plan 02/leave offset elimination.)

EXAMPLE 5

In the example below, your basic retirement income is calculated at age 60 with ten years of noncontributory (Plan 02) service. Your retirement benefit is calculated in two ways, and you receive the higher amount.

UCRP membership date	7/1/70
Noncontributory service credit	10 years
Plan 02 total 7/1/17	\$80,088
Retirement date	7/1/17 (age 60)
Total service credit	40 years
Age factor for age 60	.0250
Average Salary (HAPC*)	\$5,400
SPF** for age 60	168.48
Social Security	Not covered
Tier	1976 Tier

A. With noncontributory service credit and offset

$$\begin{array}{ll}
 40 \text{ years} & \text{service credit} \\
 \times .0250 & \text{age factor} \\
 \hline
 \times \$5,400 & \text{HAPC} \\
 \hline
 \$5,400 & \text{basic retirement income}
 \end{array}$$

$$\begin{array}{ll}
 \$80,088 & \text{Plan 02 total} \\
 \div 168.48 & \text{SPF, age 60} \\
 \hline
 \$475 & \text{Plan 02 offset}
 \end{array}$$

$$\begin{array}{ll}
 \$5,400 & \text{basic retirement income} \\
 - \$475 & \text{Plan 02 offset} \\
 \hline
 \$4,925 & \text{monthly benefit}
 \end{array}$$

B. Without noncontributory service credit and offset

$$\begin{array}{ll}
 30 \text{ years} & \text{service credit} \\
 \times .0250 & \text{age factor} \\
 \hline
 \times \$5,400 & \text{HAPC} \\
 \hline
 \$4,050 & \text{basic retirement income and monthly benefit}
 \end{array}$$

You receive the greater benefit (A), which is \$4,925 per month.

If Offset is Eliminated Through Service Credit Purchase

If you elect to eliminate the offset, the service credit purchase cost is \$80,088 as of July 1, 2017. The monthly retirement benefit will be:

$$\begin{array}{ll}
 40 \text{ years} & \text{service credit} \\
 \times .0250 & \text{age factor} \\
 \hline
 \times \$5,400 & \text{HAPC} \\
 \hline
 \$5,400 & \text{basic retirement income (unreduced)}
 \end{array}$$

* HAPC = Highest average plan compensation
 ** SPF = single premium factor

This example is based on UCRP provisions and the actuarial equivalence basis as of July 2016, which are subject to change.

Alternatively, if you are willing to work beyond 40 years of service credit, you may not have to pay back the entire Plan 02 balance to eliminate the noncontributory offset. Consult with a benefits representative or the Retirement Administration Service Center to discuss your situation in more detail.

Paying for a Service Credit Purchase

There are three ways you can pay for your service credit purchase. (These options are all subject to the IRC's Section 415(c) annual limit of \$55,000 for 2018 for contributions to a defined contribution plan even though paid to UCRP.)

They include:

- **An after-tax lump sum payment.** Be aware that making this type of service credit purchase payment may limit your ability to contribute to a DC Plan After-Tax account during the same year. That's because this type of single sum payment counts toward the IRC's annual limit for defined contribution plan contributions.
- **Pretax trustee-to-trustee transfer from the UC Retirement Savings Program (DC, 403(b), and 457(b) Plans).** Don't be put off by the lingo—basically this means that you are able to transfer money from one or more of your UC retirement savings accounts to pay for the service credit purchase.

If your service credit purchase is for a Restricted Purchase Leave (see "Service Credit Purchase for Approved Leave—How It Works" on page 5), you can purchase a maximum of five years of service credit via the trustee-to-trustee transfer from the DC Plan. You need to have five years of active participation in UCRP to do this type of purchase. If you're doing a trustee-to-trustee transfer from the 403(b) and/or the 457(b) Plan, these limitations don't apply. You may purchase service credit even if you have less than five years of active participation in UCRP, and you may purchase more than five years of service credit.

The trustee-to-trustee option isn't available for Plan 02/leave offset elimination or Tier Two conversion.

- **Rollover from an eligible plan.** You can roll over funds from any tax-qualified 401(a), 401(k), 403(b) or governmental 457(b) plan, as long as you're eligible to take a distribution from that plan. With this option, you aren't limited to UC plans—you may also use funds you have in outside plans. You can't, however, take a direct rollover from an Individual Retirement Account (IRA) to pay for a service credit purchase.

If your service credit purchase is for a Restricted Purchase Leave, (see "Service Credit Purchase for Approved Leave—How It Works"), you can buy a maximum of five years of service credit with a rollover contribution. You also must have five years of active participation in UCRP.

The rollover option isn't available for for Plan 02/leave offset elimination or Tier Two conversion.

You can choose one of these options, or combine them—for instance, by using both a pretax trustee-to-trustee transfer and an after-tax lump sum payment for a single service credit purchase.

* Payroll deduction plans are not available for service credit purchase beginning Jan. 1, 2014.

IF YOU LEAVE UC EMPLOYMENT

If you've been paying for your service credit purchase on a monthly basis* and leave UC employment before you complete all your payments, you'll receive prorated service credit or a proportional reduction in your Plan 02 or leave offset.

If you've made 12 or more monthly payments, you may make a lump sum, after-tax payment to finish your service credit purchase. You'll need to make the payment within 60 days of leaving UC. And unless your payments represent a redeposit of prior contributions you've made, plus interest, they are subject to the IRC §415(c) annual limit (for 2018, \$55,000).

If, for budgetary reasons, you're being laid off and can meet UCRP vesting requirements only through a service credit purchase, you may be able to complete a service credit purchase by making a one-time, lump-sum payment before you leave UC employment.

Your payment options may include a single sum after-tax payment, a trustee-to-trustee transfer from the 403(b) or 457(b) Plan, or a rollover from a UC plan or another qualified plan. If you have been paying for a service credit purchase on a monthly basis*, you may complete the service credit purchase with a one-time lump sum after-tax payment made within 60 days of leaving UC.

Do you anticipate getting a significant raise soon after starting your service credit purchase?

If so—and if your service credit purchase calculation is based on the Actuarial Cost Method—your costs will need to be recalculated and it's likely you will end up paying more. If you receive a raise of 25 percent or more within the first year after electing a service credit purchase, the true cost of your future benefit will be significantly more than you're paying for the service credit purchase. Since your service credit purchase no longer covers the cost of your future benefit, your cost will be recalculated based on your new salary. If you don't pay the additional cost, the amount of service credit you purchase will be prorated.

For instance, say that a 60-year-old faculty member earns \$7,500 per month (\$90,000 per year) and in April 2017 purchases service credit for a two-year-leave using Individual Actuarial Cost. The lump sum cost of the service credit purchase is \$57,924 and will increase the member's monthly retirement benefit by \$368. In September 2017, the faculty member becomes a dean, with a 30 percent salary increase to \$9,750 per month (\$117,000). The dean's anticipated retirement benefit will also go up by 30 percent. The service credit purchase now increases the member's benefit by \$478 per month. That means the dean's purchase would need to be recalculated, and the new cost would be \$75,301.

Is a Service Credit Purchase the Best Place for your Money?

While electing a service credit purchase is likely to increase your UCRP benefits based on service credit, it's a good idea to examine the costs and benefits carefully.

It's possible, for instance, that you might reach the maximum allowable benefit payable from UCRP. If so, then a service credit purchase won't increase your future retirement benefits. Similarly, if you leave UC employment or die before becoming eligible to retire, you and/or your survivors may not benefit from a service credit purchase.

Remember that unlike many other investments, a service credit purchase is irrevocable.

Before you commit yourself, estimate how much the service credit purchase will increase your retirement benefit, and how long it will take to recoup your cost once you retire.

EXAMPLE 6

To determine how long it will take to recoup your service credit purchase payment, divide the total cost of the service credit purchase by the amount your monthly benefit will increase as a result of the service credit purchase. For example, say that the cost of a service credit purchase (investment) is \$2,880. The service credit purchase will increase the member's retirement benefit at age 60 by an estimated \$80 per month (return).

Your service credit purchase: Total cost [divided by] monthly age 60 benefit increase = months to recoup cost

$\$2,880 \div \$80 \text{ per month} = 36 \text{ months}$

If you retire at 60, it will take 36 months to recoup the cost of your service credit purchase.

FACTORS TO CONSIDER

As you think about whether a service credit purchase is a good investment, you may want to take into account these issues:

LUMP SUM CASHOUTS

If you're eligible for and considering a lump sum cashout, you should compare the cost of a service credit purchase with the expected increase in your lump sum cashout amount. Your cashout is more likely to increase, in relation to the cost of the service credit purchase, if you elect a service credit purchase within three years of returning to employment. This is because it will be based on the Plan Normal Cost Rate instead of the Individual Actuarial Cost.

INTERNAL REVENUE CODE LIMITS ON BENEFITS

Internal Revenue Code 415(b) generally sets the maximum annual amount that a defined benefit plan like UCRP can pay to any individual. (For 2018, it's \$220,000.) In some cases, a service credit purchase may push your benefit over the IRC limit. If so, benefits from the University of California 415(m) Restoration Plan will usually make up the difference between the amount UCRP can pay and your earned benefit. (The restoration plan is different from UCRP, and is subject to termination by the Regents.) To learn more about the restoration plan, please see additional information about the 415(m) Restoration Plan on UCnet at ucnet.universityofcalifornia.edu/compensation-and-benefits/retirement-benefits/ucrp/415m-restoration-plan.html.

YOUR BENEFIT COULD BE HIGHER OR LOWER THAN THE ESTIMATE

The retirement benefit increase that results from your service credit purchase is estimated based on your current salary. Your benefit will be higher if your highest average salary over 36 months (your Highest Average Plan Compensation, or HAPC) is greater when you retire. If, however, you retire before age 60 (for 1976 Tier employees), your benefit will be based on a lower age factor.

Is a Service Credit Purchase the Best Place for your Money?

COST-OF-LIVING ADJUSTMENTS (COLAS)

If you increase your retirement benefit through a service credit purchase, you also increase any COLA payable on the basis of that benefit.

SURVIVOR BENEFITS

In the event of your death while eligible to retire, or after you retire, a service credit purchase may increase the benefits payable to your surviving spouse or domestic partner and/or any other person you name as your contingent annuitant, if applicable.

DISABILITY INCOME

If you become eligible for UCRP disability income before you retire, a service credit purchase could increase your disability benefit, depending on your years of service credit. Purchasing service credit for previous UCRP membership (see “Service Credit Purchase for Previous UCRP Membership”) will help you meet the minimum service credit eligibility requirement, but purchasing service credit for a leave will not.

A payment to eliminate a noncontributory offset has no effect on disability income.

UC-SPONSORED MEDICAL AND DENTAL BENEFITS

A UCRP service credit purchase may help you qualify to continue these benefits after you retire, or may increase UC’s contribution toward the monthly premiums. To learn more, please see the information on retiree health benefits available at ucal.us/ucrphwb.

COULD YOU GET A BETTER RETURN ELSEWHERE?

Rather than investing in a UCRP service credit purchase, consider what you might gain by investing the same money elsewhere. You could have contributions taken from your paycheck, for instance, and put into one of the UC Retirement Savings Program plans, or simply put the money into an external investment account. For a more detailed look at whether a service credit purchase is a good choice for you, please consult with a financial planner.

TAX IMPLICATIONS

When comparing a service credit purchase with other investment options, remember that 403(b) and 457(b) contributions reduce your current taxable income, which a service credit purchase payment does not. It’s a good idea to consult with your tax advisor about how a service credit purchase might affect your overall financial picture.

Need more help making your decision?

Check out the UC Retirement Plan Benefit Estimator. It helps you model various scenarios for your retirement income based on information you provide. You’ll find it by going to UCnet (ucnet.universityofcalifornia.edu) and selecting “AYS Online.” After you sign in, choose “Retirement Estimator” in the Retirement & Savings section.

How to Make a Service Credit Purchase

STEP 1:

Get an estimate. You'll need to complete the *Service Credit Purchase Information Request* form (UCRS 169), available online at ucal.us/UCRS169 and provide the records requested on the form.

Contact the Retirement Administration Service Center at 800-888-8267 for an estimate of the cost and payment options for your service credit purchase, based on the completed form. The Retirement Administration Service Center can also provide estimates of the approximate benefits you'd receive at retirement with and without the service credit purchase.

STEP 2:

Request a formal service credit purchase calculation. If you're still interested in a service credit purchase, send copies of the UCRS 169 form, along with your required documentation to:

Retirement Administration Service Center
Research Unit
P.O. Box 24570
Oakland, CA 94623-1570

STEP 3:

Review your election materials carefully. Within 60 days of receiving your request form and required documents, the Retirement Administration Service Center will send you a service credit purchase election packet, which will include your service credit purchase cost, payment options, and applicable forms. Talk with your financial advisor and be sure you understand the implications of your decision.

STEP 4:

Submit your election form within the time period specified on your election letter.

STEP 5:

If you choose the trustee-to-trustee or rollover payment options, submit the requested forms to the appropriate institutions within the same period.

Important Note: Your payment(s) must clear the UCRP correspondent bank on or before the due date identified in your election packet. If the payment(s) clear after the due date, additional interest will be applied and must be paid.

By authority of the Regents, University of California Human Resources, located in Oakland, administers all benefit plans in accordance with applicable plan documents and regulations, custodial agreements, University of California Group Insurance Regulations, group insurance contracts, and state and federal laws. No person is authorized to provide benefits information not contained in these source documents, and information not contained in these source documents cannot be relied upon as having been authorized by the Regents. Source documents are available for inspection upon request (800-888-8267). What is written here does not constitute a guarantee of plan coverage or benefits—particular rules and eligibility requirements must be met before benefits can be received. The University of California intends to continue the benefits described here indefinitely; however, the benefits of all employees, retirees and plan beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums, employer contributions and monthly costs at any time. Health and welfare benefits are not accrued or vested benefit entitlements. UC's contribution toward the monthly cost of the coverage is determined by UC and may change or stop altogether, and may be affected by the state of California's annual budget appropriation. If you belong to an exclusively represented bargaining unit, some of your benefits may differ from the ones described here. For more information, employees should contact their Human Resources Office and retirees should call the UC Retirement Administration Service Center (800-888-8267).

In conformance with applicable law and University policy, the University is an affirmative action/equal opportunity employer. Please send inquiries regarding the University's affirmative action and equal opportunity policies for staff to Systemwide AA/EEO Policy Coordinator, University of California, Office of the President, 1111 Franklin Street, 5th Floor, CA 94607, and for faculty to the Office of Academic Personnel and Programs, University of California, Office of the President, 1111 Franklin Street, Oakland, CA 94607.

