Using Tax-Deferred Funds to Purchase Service Credit

Colorado PERA service credit can be purchased using tax-deferred (pre-tax) money from certain retirement plans as allowed by the Internal Revenue Code (IRC). If you have an account in one of the plans listed below and want to use it to fund all or part of your purchase cost, you will need to contact that plan administrator to ensure a distribution can be made from that plan and received by PERA no later than your *Service Credit Purchase Agreement* due date.

- **401(a) plans:** Many public and private sector defined benefit and defined contribution pension plans are qualified under IRC section 401(a). This includes the PERA DC Plan.
- **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 the PERAPlus 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. This includes the PERAPlus 457 Plan.
- **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.

See the *Purchasing Service Credit* booklet for more information.

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 retirement plans listed above and includes earnings 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, Coverdell Education Savings Accounts, and Section 529 plans cannot be used to purchase service credit. Additionally, Roth funds in the PERAPlus 401(k)/457 Plans or any other plan 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 your tax-deferred money, you must provide PERA with documentation of the source of the money. If the money is coming from the tax-deferred accounts in the PERAPlus 401(k) or 457 Plans, the PERA 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% of your distribution for federal income tax, you may make up the amount withheld from other sources when rolling the money into PERA.

PERA Resources

- Visit PERA's website at copera.org
- Email PERA through PERA's website; click on the "Contact Us" link
- Call PERA at 800-759-7372

Your PERA membership rights, benefits, and obligations are governed by Title 24, Article 51, of the Colorado Revised Statutes, PERA Rules, and other governing laws, which prevail over any interpretations in this fact sheet.

Colorado Public Employees' Retirement Association
1301 Pennsylvania Street, Denver, Colorado 80203 • 800-759-PERA (7372) • copera.org

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