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Purchase of Prior Service Credit

An employee earns service credit for each month reported in the employer snapshot. Prior service is a period of eligible service that is not credited to an employee's VRS account. Employees may increase their creditable service by purchasing certain types of eligible service¹ or by applying for service at no cost in certain circumstances. For most types of service, employees can either initiate a purchase using myVRS or ask the employer to set up the purchase through myVRS Navigator. Purchased service credit increases the retirement benefit and results in a more favorable reduction factor in the case of early retirement. Purchased service counts toward:

- The number of years required for vesting (except for purchases using accumulated sick leave);
- The number of years required to qualify for an unreduced benefit;
- The 15 years required to qualify for the health insurance credit (if applicable) and the amount of the credit calculated at retirement;
- The number of years required to qualify for group life insurance after retirement (if applicable); and
- The hazardous duty supplement in some cases. (See the [Hazardous Duty chapter](#) of the Employer Manual for more information.)

Eligibility

Only active employees are eligible to purchase service credit. Retirees and members who deferred retirement are not eligible to purchase service because they are no longer active VRS-covered employees. An active employee does not need to be vested in VRS to be eligible to purchase service. Eligibility for purchasing service is individually evaluated based on the employee's work history.

Service Limited to a 48-Month Purchase

If eligible, an employee may purchase service credit up to a maximum combined total of 48 months for the following types of service:

Eligibility

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- Educational Leave of Absence
- Leave for Birth, Adoption or Death of a Child
- Public Service
- Federal Service in other Agencies
- Non-Covered Service with a Participating Employer
- FMLA Purchases
- Private Institution Merged with a Public Institution
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¹ See *Code of Virginia* § 51.1-142.2.



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Educational Leave of Absence (Limited)

An active employee may purchase service credit for any approved educational leave from a VRS-covered employer.² To qualify for this type of purchase, the employer must certify the employee’s eligibility and retirement contributions must not have been made during the period of leave.

Leave for Birth, Adoption or Death of a Child (Limited)

An active employee who took leave from a VRS-covered position for the birth, adoption or death of a child may purchase the actual amount of service credit missed, up to a maximum of one year of service credit per occurrence. To qualify, the leave must have occurred immediately following the birth or adoption of a child and must be certified by the employer. In the case of the death of a child, the leave may have occurred before or after the child’s passing. Both parents are eligible to purchase this type of service.

Public Service (Limited)

An active employee may purchase service earned while employed in a full-time, permanent, salaried position with:

- A state or territory of the United States;
- A political subdivision of Virginia not participating in VRS or another state or territory of the United States; and
- A public school system or institution of higher learning of another state or territory of the United States.

To qualify, an employee must have the former employer certify the period of service and that the employee is not eligible for a retirement benefit based on this service.

Federal Service in Other Agencies (Limited)

An active employee may purchase full-time, permanent, salaried federal service, including service in the Peace Corps and AmeriCorps. To qualify, the employee must have the former employer or the [U.S. Office of Personnel Management](#) certify the service. The service to be purchased cannot entitle the employee to a benefit with any other retirement plan.



AmeriCorps service must be certified by AmeriCorps VISTA or AmeriCorps NCCC.

² VRS members reported on leave-without-pay status while working for an education association are included in this category.

Eligibility

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- Leave for Birth, Adoption or Death of a Child
- Public Service
- Federal Service in other Agencies
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Non-Covered Service with a Participating Employer (Limited)

Certain VRS members who were previously employed by a VRS employer but were not eligible for VRS coverage may be eligible to purchase that service credit if they were in a part-time (including substitute teaching), wage or temporary full-time position with a participating employer. An employee may not purchase service for a period of employment for which the employee received a retirement benefit.

An employee is eligible to purchase one month of service for every 173 hours worked in the prior non-covered position. The employer should round up to the nearest whole number when determining the number of months of service credit that can be purchased. An employee who worked in the position for less than 173 hours is eligible to purchase one month of service credit.



An employee who has 174 hours of service is eligible to purchase two months of service credit. An employee who has 10 hours of service is eligible to purchase one month.

The former employer must certify the employment start date, end date and number of hours worked. The former employer should establish guidelines regarding the types of acceptable documentation and should advise employees what documentation the agency requires for certification. If payroll records are not available, the former employer may use the following to certify service:

- Pay stubs;
- Wage/Tax Statement (W-2); or
- Social Security Earnings Statement.

A member may submit [Social Security Information form SSA 7050-F4](#) to a local Social Security Administration office to obtain a statement of quarterly earned wages and list of employers. There is a fee to obtain this information.

When entering the eligibility, use myVRS Navigator to enter the information just as with any other purchase type. An employee who seeks non-covered service credit for service rendered with an agency other than the current employer must complete an [Application for Purchase of Prior Service Credit \(VRS-26\)](#) and have the agency where the service was rendered certify the form. The former employer returns the form to the employee, who submits the completed VRS-26 to VRS, where the eligibility is entered in myVRS Navigator.

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FMLA Purchases (Limited)

An active employee may purchase VRS service credit for a leave of absence taken under the Family and Medical Leave Act (FMLA) for a serious health condition of the employee or of an immediate family member. No other types of FMLA leave are eligible for purchase. The employer must have approved the FMLA at the time of the leave.

Private Institution Merge with a Public Institution (Limited)

An active employee who worked full-time at a private institution of higher education that merged with a public institution of higher education may purchase the service credit. However, the public institution must have issued new degrees for the employee to be eligible.

Non-Ported Service (Limited)

When an employee ports service from a non-VRS employer to a VRS employer, the amount of service ported may be less than the actual amount of service that was accumulated. See the Ported Service section of this chapter for details.

If the ported service amount is less than what was accumulated, the employee may purchase up to four years of the remaining service credit as non-porting service.

The following conditions apply to non-porting service:

- The purchase of non-porting service is not allowed if the period of the service overlaps with service already in the employee's VRS record;
- The service cannot entitle the employee to a benefit with any other retirement system; and
- The employee must have worked in a full-time position.

Active Duty Military Service (Limited)

An active employee may purchase up to four years of prior active duty U.S. military service credit. Active duty military service means full-time service of at least 180 consecutive days in the United States Army, Navy, Air Force, Marine Corps, Coast Guard or any other distinct branch of the armed services as established by the federal government, or in their reserve components. This service cannot be used to qualify the employee for a benefit from another retirement system; however, an employee can purchase U.S. Armed Forces Reserves or the National Guard service even if it qualifies them for a military pension. An employee's discharge must not have been

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dishonorable. The employee must provide a copy of the Certificate of Release or Discharge from Active Duty (DD214) or, in the case of an employee in the National



Guard, a copy of orders showing the period of active duty.

An employee can purchase 48 months of applicable active duty military service in addition to the 48-month threshold for other types of limited service.

Service Not Limited to a 48-Month Purchase

If eligible, an employee may purchase or be granted the following types of service credit, which are not subject to the 48-month cumulative maximum:

Refunded Service (Unlimited)

When an employee receives the defined benefit retirement contributions in a retirement account as a refund, the refund cancels service credit the employee had with VRS. Upon returning to VRS-covered employment, an employee may purchase the total amount of service represented by the refunded amount. If the employee purchased refunded VRS service credit through another public retirement system, this same service cannot be purchased through VRS if the employee is entitled to a benefit with the other system.

The employer is not required to certify refunded service. In most instances, any refunded service an employee is eligible to purchase will be visible on the Service Purchase and Eligibility screen in myVRS Navigator. If an employee's service was refunded prior to July 1, 1988 or if the eligibility is not visible in myVRS Navigator, the employer should direct the employee to complete a VRS-26 so VRS can research the request and add the eligibility. See the Refunded Service Cost and Payment Methods section of this chapter for more information.

Service Not Reported While on Workers' Compensation

Employees may purchase service for periods when they received only workers' compensation benefits while on short-term disability or up to 24 months of leave without pay. The employer must not have withheld retirement contributions from the employee's workers' compensation payment. The employer should contact VRS to have the eligibility entered.

Eligibility

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- Educational Leave of Absence
- Leave for Birth, Adoption or Death of a Child
- Public Service
- Federal Service in other Agencies
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Purchases Using Accumulated Sick Leave

An employee may purchase VRS service credit at actuarial equivalent cost using payment received for accumulated unused sick leave only at the time of an immediate retirement from the employer who is paying out the accumulated sick leave. The amount of the sick leave payout determines the amount of service that can be purchased. Employees can elect to use a portion of the payout of accumulated sick leave for the purchase instead of the entire amount.

Only whole months can be purchased; rounding up is not permitted when determining the number of months of service credit that can be purchased.



An employee who has 10.7 months of accumulated unused sick leave cannot round up to 11; only 10 months may be purchased.

When counseling employees purchasing VRS service credit at actuarial equivalent cost using payment received for accumulated unused sick leave, the employer should keep in mind that the decision to convert is irrevocable. Once the credits are entered in myVRS Navigator and the hours are calculated, they have been converted to service credit and cannot be reversed.

Funds paid out to an employee from the employer are subject to income tax. The employer should either deduct taxes from the sick leave payout or advise the employee that taxes must be paid on the cost for the months purchased. An employee who decides to purchase the maximum eligibility must submit a supplemental payment to the employer for the amount of the taxes owed. The employer then pays the taxes and submits the sick leave payout to VRS as part of the monthly snapshot. When the snapshot is confirmed, the months purchased are added to the employee's records and will be included in retirement calculations.



An employee has a \$5,000 accumulated sick leave payout. Assuming a 22% tax rate, the employee has \$3,900 available to purchase accumulated sick leave without additional tax consequences. The employee could instead purchase the maximum months available and pay the associated 22% tax directly to the employer.

The member must start receiving a VRS retirement benefit immediately upon terminating covered employment if purchasing service credit using accumulated sick leave. The retirement date cannot be deferred. Payment of the retirement benefit may be delayed while the purchase using accumulated sick leave is processed.

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Active Duty Military Leave (No-Cost and Unlimited)

Active duty service in the armed forces is available at no cost for an employee who was granted approved leave of absence from a VRS-covered employer to serve, and who returned to a VRS-covered position within one year of discharge or release from active duty, and whose discharge was not dishonorable. An employee who took a refund from VRS must purchase at least one month of refunded service credit before this type of service credit is granted.

The employer must certify that the employee's discharge was not dishonorable, using the DD214 for each period of active duty service. If the employee was entitled to salary changes while on leave, the salary changes must be inputted after the employee returns to active employment. Each salary increase should be a separate entry in myVRS Navigator. An employee who is unable to locate a DD214 can obtain a replacement copy from the [U.S. National Archives and Records Administration's website](#) or by calling the [National Personnel Records Center](#) at 314-801-0800.

Conversion of VSDP Disability Credits

Eligible members of the Virginia Sickness and Disability Program (VSDP) were allowed to convert their sick leave balance to either service credit or disability credits when they first joined VSDP. A member who terminates or retires may convert any unused disability credits to service credit at the rate of 173 disability credits to one month of service credit (one month of service credit is granted if the member has between one and 173 hours of disability credits) or be paid for the credits. The employer enters the eligible number of hours in myVRS Navigator as service purchase eligibility after VRS has entered the retirement date. However, if a member is terminating and not retiring, the former employer may enter the number of hours in myVRS Navigator to convert disability credits after the separation date is entered.

An employer counseling employees on whether to convert disability credits or take a payout should keep in mind the decision to convert is irrevocable. The employer must enter the hours in myVRS Navigator and save the record. The hours are then converted to service credit immediately and cannot be reversed.



If an employee leaves employment with a state agency to work for another state agency, disability credits cannot be converted since the Commonwealth of Virginia is considered to be one employer.

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Service Not Reported by Employer (No-Cost and Unlimited)

If service for an employee was omitted that is more than three years from the current confirmation snapshot period, it is considered service not reported by the employer.

The cost for this service is based on an actuarial equivalent rate and must be paid by the employer. The cost to purchase the service is included in the monthly snapshot.



If the omission occurred within three years of the current month and year, the employer corrects the error in the employee's record in myVRS Navigator. The correction occurs in the employer's snapshot and is based upon the employee's creditable compensation during the omitted period, as well as employee and employer rates in place at the time of the error.

Ported Service

The *Code of Virginia* permits VRS to enter into reciprocal agreements with other public sector defined benefit plans in Virginia to provide for portability of benefits between the plans.³ A portability agreement allows an active VRS employee to transfer the present value of benefits from a non-VRS defined benefit public retirement system in Virginia to the VRS defined benefit plan during a one-time eligibility period to purchase service credit. Employers entering into a portability agreement notify their employees of the eligibility period dates. An employee who wants to port service should contact VRS.

Portability agreements can only be established between VRS and any of Virginia's political subdivisions that have their own defined benefit plans. The following political subdivisions have reciprocal portability agreements with VRS: County of Fairfax, City of Charlottesville, City of Newport News, City of Norfolk, City of Richmond, City of Danville and City of Roanoke. The portability agreement must:

- Specify eligibility and establish a time frame for portability to become effective;
- Establish procedures for converting the value of the benefits accrued in one plan, called the transferring plan, to the other plan, called the accepting plan; and
- Specify how the resulting service credit may be counted.

To be eligible for portability of benefits, the employee must meet several conditions:

- A portability agreement must exist between VRS and the former employer;
- The employee must be covered under Plan 1 or Plan 2;
- The employee must be actively employed in a full-time VRS-covered position;

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³ See *Code of Virginia* § 51.1-143.1 and § 51.1-801.1.

- The employee must have been vested in a retirement plan offered by the former employer at the time of termination; and
- The employee must request the transfer of assets within 18 months of first being employed in a covered position by a VRS-participating employer.

The following employees are not eligible:

- An employee who was not vested in the former employer’s retirement plan at termination, even though the employer has a reciprocal agreement with VRS;
- An employee who took a refund of retirement contributions;
- An employee whose benefits are subject to attachment, including an Approved Domestic Relations Order (ADRO), spousal or child support (where an ADRO is on file with either employer).



Ported service is not available to Hybrid members.

The actual amount of service credit an employee receives may or may not equal the actual service accumulated under the former employer’s plan. The higher of the employee’s contribution account or the present value of the benefit in the porting plan is transferred to VRS.

The actual amount of VRS service credited is determined by actuarial formulas that take into consideration many factors including the employee’s age, life expectancy and creditable compensation at the time of purchase, as well as the effect of interest rates and cost-of-living adjustments. The amount of service credited through portability could be equal to or less than the actual amount of service with the porting plan. The employee is advised of the actual amount of service that can be credited prior to porting any assets. For information about service not included in a portability agreement, see the Non-Ported Service (Limited) section of this chapter.

Service as a School Superintendent

An active school superintendent with at least five years of earned creditable service as a superintendent in Virginia may purchase up to 10 years of prior public service credit while employed in a full-time, permanent salaried position with another state or political subdivision that is not covered under VRS.

Each year of service costs 10% of the superintendent’s current creditable compensation or average final compensation (AFC), whichever is higher, if purchased

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in a lump-sum payment within one year of becoming eligible.⁴

After the one-year window of eligibility, the purchase can only be made at the actuarial equivalent cost. This same service cannot be used to qualify the employee for a benefit from any other retirement plan, including a defined contribution plan. The school board that made the appointment may purchase prior service credit on behalf of the superintendent.

A school division superintendent must remain in that position with the local school division for the equivalent number of months as was purchased under the superintendent provision. If the superintendent does not remain with the local school division for the equivalent number of months, the purchased superintendent service will be reduced by the number of months the employee failed to serve as the superintendent with the local school board, and the excess will be refunded back to the employee.



An employee can purchase an additional 10 years of applicable school superintendent service in addition to the 48-month threshold for limited service.

Service Credited through ORPPA Transfers

A member of the Optional Retirement Plan for Political Appointees (ORPPA) who leaves that appointed position and becomes employed in a VRS-covered position with the Commonwealth may transfer the accrued ORPPA contributions and earnings to purchase service in the VRS defined benefit plan. To be eligible, the employee must not have a break in service between positions.

An ORPPA participant can request an estimate to determine how much service the ORPPA balance would buy if it were transferred it to VRS. Prior to requesting an estimate, the participant must have submitted the [Termination Certification Form ORPPA \(VRS-65E\)](#) to their employer. The participant must complete the VRS-65E before an estimate will be processed.

After receiving the cost quote, the participant has 30 days to complete the conversion of funds from ORPPA to the defined benefit account. The transfer is completed upon

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⁴ See the [Membership chapter](#) of the Employer Manual or the [Creditable Compensation job aid and checklist](#) for more information on creditable compensation.



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the participant’s completion of a Request for Transfer of Funds from ORPPA to Purchase VRS Service Credit (VRS-101).

The cost associated with this type of transfer is based on actuarial equivalent cost. If the balance of accrued contributions and earnings in the ORPPA account is less than the cost to purchase the entire amount of service credit, the participant may contribute personal funds to purchase any remaining service time. If the balance is more than the cost to purchase the entire amount of service, any remaining funds are forfeited to VRS. In no event may the amount of service credit transferred exceed the actual service time in the position covered by the ORPPA.

Cost Window and Cost to Purchase Service

The cost to purchase service depends on the type of service and when the employee buys the service. The employee has a two-year window of time to purchase service at approximate normal cost before the cost changes to an actuarial equivalent cost.

Within Two-Year Cost Window	After Cost Window
Approximate normal cost	Actuarial equivalent cost

The approximate normal cost rate is the average cost of one year of VRS service credit. The cost is based on a percentage of the employee’s creditable compensation or the employee’s AFC, whichever is higher, at the time of purchase. See the [Plan 1 and Plan 2 cost rates](#) chart or the [Hybrid cost rates](#) chart for details.

Actuarial equivalent represents the amount of money needed in today’s dollars to pay for the total value of the increase in the employee’s future retirement benefit or earlier retirement eligibility date resulting from purchasing prior service.



Refunded service follows different rules. See the Refunded Service (Unlimited) section of this chapter for information about refunded service.

The cost window begins upon employment in a covered position or following an eligible period of leave. If service is purchased within the cost window, the cost is generally lower so employers should encourage employees to purchase service early. An employee who has not purchased eligible prior service and leaves the job remains eligible to purchase the service upon returning to covered employment. If the cost

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window is still open at the time of separation, the window temporarily closes during the period of separation and resumes if the employee returns to active VRS-covered employment.

If the employee accrues eligible service after leaving VRS-covered employment and then returns to VRS-covered employment, the cost window for this service will begin upon reemployment.



If an employee goes on active duty military leave and returns to covered employment, the eligibility will be extended by the amount of time the employee was on military leave.

Purchase Payment Agreements

An employee may pay for purchased service through a purchase payment agreement, lump-sum, or a combination of both, subject to employer availability. Purchase payment agreements must follow these rules:

- Agreements can include all or part of the eligible service;
- Agreements may be made for a minimum of six months (unless there are fewer than six months to purchase) or a maximum of 12 months; however the length of an agreement cannot exceed the employee's contract (i.e. an employee on a 9-month contract cannot make an agreement for more than 9 months);
- Terms and cost in effect at the end of an agreement do not carry forward to the next agreement;
- Only one purchase payment agreement is allowed at a time; however, a member can purchase additional service through a lump-sum while in an active agreement;
- When an agreement ends, a member cannot renew it; a new agreement must be calculated;
- The employee must ask the employer to begin payroll deductions and payment must begin with 90 days or the agreement will be cancelled;
- The employer must approve the agreement before or during the month in which the agreement will begin; this must be done before the snapshot is confirmed for that month;
- The employee can cancel the agreement at any time during the 90 days as long as payment has not been received;
- The duration of an agreement may not extend beyond the two-year cost window;
- Agreements can be pre-tax or after-tax; employers must submit a resolution to VRS to offer pre-tax purchases; and
- The cost to purchase remains the same for the duration of an agreement, even if the employee has a salary change.

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If there are fewer than six months remaining in the cost window, the duration of the agreement may be for less than six months. In that case, the duration must be for the maximum time left in the cost window.

An employee who chooses to purchase service using a pre-tax purchase payment agreement has the amount withheld from each month's pay to purchase the service. A pre-tax purchase payment agreement reduces the amount of gross income that is subject to income taxes. This method of payment allows the employee to achieve current-year tax savings while building up the amount of service credit for retirement. The purchase of prior service credit on a pre-tax basis has no effect on an employee's creditable compensation for retirement or group life insurance purposes.

Even though an employee may defer income taxes on purchases through a pre-tax agreement, the employer should withhold FICA taxes on the purchased amount.



VRS cannot deviate from Internal Revenue Service rules governing this type of purchase. Various sections of the *Internal Revenue Code* place limits on the amount of contributions an employee may make to a deferred compensation plan under IRC §457, a tax-sheltered or tax-deferred annuity plan under IRC §403(b), or other tax-sheltered plans. Although the contribution used to purchase service credit on a tax-deferred basis is not counted as this type of contribution, limitations for these plans are also based on gross taxable income. Purchasing prior service credit on a pre-tax basis reduces gross taxable income, so the maximum amount an employee could contribute to other tax-sheltered plans could be reduced. VRS recommends the employee consult a financial advisor before initiating a tax-deferred purchase of prior service credit.

Ending a Purchase Payment Agreement

Pre-tax agreements may only be broken if the member incurs a financial hardship due to an unforeseeable emergency. Since VRS does not determine what constitutes a hardship, employers should refer to *Treasury Regulation 26 CFR §1.457-6(c)* for the definition of an unforeseeable emergency. For example, college tuition does not qualify, but a medical expenditure may. The employer must notify the Purchase of Prior Service unit of the hardship in writing in order to cancel the agreement.

If the employee terminates or retires from a VRS-covered position before completing the pre-tax agreement, the employee cannot purchase the service remaining in the agreement. An employee who breaks the agreement for hardship reasons may only purchase the service in an after-tax agreement or in a lump sum after the end of the original agreement period.

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If the employee breaks a pre-tax agreement, the remaining service may be purchased in a post-tax agreement or lump-sum after the expiration date of the original agreement. The employee may not enter into another pre-tax agreement for the same service.



If a member is in a post-tax agreement and the employer offers pre-tax agreements, the employee may cancel the post-tax agreement at any time and start a new agreement to purchase the rest of the service in a pre-tax agreement.

Members Changing Employers

Since the Commonwealth of Virginia is considered one employer, an employee who has a purchase payment agreement may move from one state agency to another state agency and the agreement will automatically continue. An employer who discovers that the agreement did not transfer should contact VRS immediately. The employee must notify the new employer of the agreement so the payroll deduction can be set up since the new employer does not receive a notification.

When an employee who has a purchase payment agreement transfers between non-state employers or from a state agency to a non-state employer, the purchase payment agreement terminates. If the terminated agreement was pre-tax, the remaining months of that agreement are not available for purchase until after the completion date of the original purchase payment agreement. After this date, the service can be purchased in an after-tax purchase payment agreement or as a lump sum; however, the cost to purchase service may change.

Lump-Sum Payments

An employee may purchase all or a portion of the eligible service credit (not included in a purchase payment agreement) with a lump-sum payment. Lump-sum payments can be made using a personal check from the employee or through a trustee-to-trustee transfer or rollover distribution.

An employee who wishes to purchase less than the full amount of eligible service must determine the number of months to purchase and send a check directly to VRS. When submitting a check, the employee should make certain the check is for the correct amount and is made payable to “Treasurer of Virginia-VRS” or to “VRS.” If the employee initiates

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the purchase through myVRS, the check should include the reference number from the confirmation page. Payments should be sent to:

VRS
Attn: Control Department; P.O. Box 361
Richmond, VA 23218-0361

Payment must be received within 90 days or the lump sum payment will be cancelled.

The employee can cancel the transaction at any time during the 90 days as long as payment has not been received.

An employee on leave without pay (or who is off-contract) may only purchase service by lump sum.

Trustee-to-Trustee Transfers/Rollover Distributions

VRS, as a 401(a) qualified governmental defined benefit plan, may accept a trustee-to-trustee transfer for the purchase of service from the following types of plans:

- 403(b) tax-sheltered annuities;
- 457(b) governmental deferred compensation plans;
- Qualified plans, 401(a), 401(k), profit sharing, money purchase pension, and other defined contribution and defined benefit plans that pay lump sums or other eligible rollover distributions; and
- 408 Traditional IRAs (but not Roth IRAs).

An employee who chooses a transfer or rollover should work with the transferring institution to determine their requirements. The employee can request a letter of acceptance from VRS if the institution requires it. When transferring funds to VRS, the check from the financial institution must be made payable to the “Treasurer of Virginia-VRS.” The financial institution should also insert in the memo line of the payment: “FBO (employee name) purchase of service,” and include the reference number from the myVRS or myVRS Navigator documentation.

Payment from the transferring institution must not exceed the cost of the purchase. Checks in excess of the total purchase cost will be returned to the employee. The employee must work with the transferring institution to obtain a new check in the correct amount and resubmit it to VRS.

The employer should advise the employee to coordinate all sources of funds, personal and transferring institution(s), so that all payments arrive at VRS at approximately the same time, as there are limits to how long VRS can hold pre-tax funds. If VRS receives

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a payment that does not complete the purchase, the employee will receive a letter with the available options.

Funds transferred from a qualified plan to the VRS 401(a) qualified defined benefit plan are tax-deferred until paid from VRS as a refund or lifetime monthly benefit. Once transferred, the funds receive the same tax treatment as the VRS plan when distributed. Therefore, if the employee takes a refund from VRS later and chooses not to roll the money into another plan, VRS withholds 20% federal tax and 4% state tax (if the employee is a Virginia resident) on the taxable portion of the refund. The member may elect additional federal withholdings. In addition, the employee may be subject to a 10% penalty if under age 59½ at the time of the refund.

Refunded Service Cost and Payment Methods

Refunded service has no cost window and the cost basis is different than for other types of service. The cost rate for refunded service is the total refunded amount, plus interest compounded annually from the date of the refund to the date of the purchase. The current interest rate is 6.75% and will only change if the board adopts a new assumed rate of return.



A member took a refund of \$3,000 in 2019 and accepted a position with Henrico County Public Schools in January 2024. To purchase the refunded service, the member’s cost would be the original \$3,000, plus interest compounded annually from the date of the refund to the date the member begins purchasing the service. In this example, that period is five years. If the current interest rate is 6.75%, the member would pay \$1,158.73 in interest. Therefore, the total cost to purchase the refunded service would be: $\$3,000 + \$1,158.73 = \$4,158.73$.

Associated myVRS Navigator Roles

Employers must create and certify service in myVRS Navigator for their employees to purchase service. The following roles are associated with the purchase of prior service:

Employer Roles Associated with Purchasing Service

Employment processor	Manages employment-related data and creates service purchase agreements.
Service purchase approver	Approves service purchase payment agreements.

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VRS recommends that these two roles are assigned to two separate individuals.

Typically, the employment processor is a human resource officer. To ensure that the payment amount can be withheld from the employee’s paycheck, the service purchase approver should be a payroll officer.

Creating and Certifying Eligibility

Only active employees can purchase service. The service purchase must be completed before a member takes deferred status or retires. The VRS account cannot be credited with prior service after the date of termination or retirement. For step-by-step instructions about how to create and certify eligibility, see the [Purchase of Prior Service course](#) in the Commonwealth of Virginia Learning Center (COVLC).

For most types of service, the employer must create and certify eligibility in myVRS Navigator. See the qualifications for each type of service in the Types of Service sections of this chapter. In addition, the employee must complete a VRS-26 and return it to the employer for eligibility to be added for:

- Public service;
- Federal service.

The employee must complete a VRS-26 and return it to VRS for certain types of service in order for VRS to create and certify eligibility in myVRS Navigator. These types of service include:

- Refunded service prior to July 1988;
- Non-covered service with a former employer who participated in VRS.

A school superintendent who wants to purchase service must request an Application for Purchase of Prior Service Credit (For Superintendents of Schools) (VRS-26H) from VRS.

Certifying Eligibility as a Former Employer

Previous employers may need to certify non-covered service for a former employee.

The employee submits a VRS-26 to the former employer. The former employer completes the form, certifying the member’s eligibility for the service earned and returns the VRS-26 to the employee. The employee then submits the VRS-26 to the current employer, who enters the eligibility in myVRS Navigator. For step-by-step instructions about how to certify eligibility for a former employee, see the [Purchase of Prior Service course](#) in the COVLC.

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Employers should encourage their employees to initiate their own purchases using myVRS. The self-service option allows an employee to:

- View prior service that has been certified and is available for purchase;
- Select the type and amount of service to purchase;
- Choose the order in which to purchase service;
- Determine the cost to purchase;
- See the impact of purchasing service on the future retirement benefit;
- Evaluate the time it will take to recover the purchase cost in retirement; and
- Initiate the purchase.

myVRS allows employees to calculate and compare various options for purchasing service and to initiate purchase transactions themselves. If an employee is unable to initiate a purchase through myVRS, the employer can assist using myVRS Navigator.

See the [Purchase of Prior Service course](#) in the COVLC for more information.

The employee is responsible for ensuring that all funds purchased using a lump sum are sent to VRS. Funds must be for the exact amount of the purchase or the money will be returned.

For purchase payment agreements, the employee must contact the employer to begin salary reductions or an after-tax payroll deduction. The employee should provide the employer with a copy of the confirmation page as a record of the request. The employer should verify that the member has sufficient funds for the purchase indicated, validate the start date for payroll deductions, and approve the agreement.

Setting up the Payment Method

An employee who does not use myVRS to initiate a purchase can request assistance from the employer using myVRS Navigator. The employer can work with the employee to generate a cost quote. An employee who has more than one period of service to buy must pick the order in which to purchase service. The employee may want to consider purchasing service that is the most beneficial, such as buying service at the approximate normal cost first. The employee must proceed with the purchase to lock in the cost quote (agreement or lump sum).

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If the employee chooses a lump-sum payment, the employer must set up the information in myVRS Navigator. The employee must ensure that the funds are sent to VRS within 90 days or will need to initiate a new cost quote and arrange payment.

Agreements must also be set up in myVRS Navigator and should always begin on the first day of the month and end on the last day of the month. Depending on the number of months to purchase, an employee can purchase up to four months per month; however, the cost of the final month may be different.



An employee has 35 months to purchase. The cost to purchase service is \$141.54 per month. The employee could buy some or all of it via lump sum but would prefer to make the purchase through an agreement instead. There are several options for a purchase payment agreement:

- The employee can purchase one month per month (\$141.54 per month) for 12 months. At the end of the 12 months, the employee may enter into a new agreement to purchase all or some of the remaining 23 months after a new cost quote is generated;
- The employee can purchase two months per month (\$283.08 per month) for 12 months, purchasing a total of 24 months. At the end of the 12 months, the employee may enter into a new agreement to purchase all or some of the remaining 11 months;
- The employee can purchase three months per month (\$424.62 per month) for 11 months, purchasing a total of 33 months. The employee would then purchase the remaining two months (\$283.08) in the final month; or
- The employee can purchase four months per month (\$566.16 per month) for eight months, purchasing a total of 32 months. The employee would then purchase the remaining three months (\$424.62) in the final month.

An employee who purchases service through a pre-tax payroll deduction enters into a legally binding agreement to purchase the service. The employer may use the employee-provided documentation from myVRS or a printed copy of the employer-initiated cost quote as a record of the irrevocable election to purchase the service credit on a pre-tax basis.

The employer may use the employee-provided documentation from myVRS or a printed copy of the employer-initiated cost quote as a record of the after-tax purchase. An employee who separates employment before completing the agreement may purchase the remaining months in a lump sum before the termination date. An employee who cancels the agreement may enter into a new agreement or purchase the service as a lump sum; however, the cost to purchase may change.

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The employer enters the agreement information in myVRS Navigator. For step-by-step instructions about setting up either payment method in myVRS Navigator, see the [Purchase of Prior Service course](#) in the COVLC.

Purchase Payment Agreements and Contract Employees

A contract employee can only purchase service while actively working and not in off-contract months. myVRS Navigator does not suspend the agreement for off-contract months, but instead considers these off-contract months to be under agreement.



A 10-month employee with a September 1 contract start date has 15 months of eligibility to purchase.

The employee chooses to purchase only one month per month and enters into a payment agreement with a duration of 12 months at the beginning of the contract. The employee will purchase one month of service for each month of the 10-month contract. The employee's two off-contract months of July and August are included in the duration in myVRS Navigator and this service purchase agreement ends on August 31. The 10-month employee could then purchase the remaining five months of service through a new agreement.

Alternatively, the employee could choose to purchase two months per month and enter into an agreement with a duration of eight months at the beginning of the contract. The employee would buy two months per month for the first seven months of the agreement and one month per month for the final month of the agreement. The employee would complete the purchase of 15 months within the on-contract period.

There are two instances when the cost for the last month of an agreement may be less:

- The eligibility period contains a fraction of a month; and/or
- The employee buys more than one month per month and the last month is different.

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