RA 26-212

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM[495]

Regulatory Analysis

Notice of Intended Action to be published: 495—Chapter 8
"Service Purchases"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 97B.4 and 97B.15

State or federal law(s) implemented by the rulemaking: Executive Order 10 and Iowa Code sections 17A.3, 97B.4, and 97B.15

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

August 26, 2026 3 to 3:30 p.m.	IPERS Boardroom 7401 Register Drive Des Moines, Iowa Via videoconference call: Join online meeting Meeting ID: 275 109 054 101 443 Passcode: Uf6u9vH3

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Iowa Public Employees' Retirement System (IPERS) no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

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Purpose and Summary

This proposed chapter was reviewed as part of the Red Tape Review process laid out in Executive Order 10. As a result of this review, IPERS removed restricted terms, combined or eliminated duplicative language, and made editorial updates to ensure the chapter reflects current policies and procedures. IPERS is a State retirement system that provides for the payment of annuities, enables employees to care for themselves in retirement, improves public employment within the State, reduces excessive personnel turnover, and offers suitable attraction to public service. IPERS is required to administer the retirement system.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not have a cost to the public.

- **Classes of persons that will benefit from the proposed rulemaking:**

This proposed rulemaking will benefit all IPERS members and beneficiaries and IPERS-covered public employers.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

This proposed chapter will benefit over 2,000 IPERS-covered employers and over 400,000 IPERS members by removing restrictive terms and reducing duplicative terms found both in rule and in the Iowa Code.

- **Qualitative description of impact:**

This proposed rulemaking will benefit all IPERS members and beneficiaries and IPERS-covered public employers.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

IPERS has always incurred personnel and other administrative costs associated with implementing the agency's administrative rules while carrying out agency functions. Implementation of this proposed rulemaking adds no additional expense.

- **Anticipated effect on State revenues:**

This proposed rulemaking will not impact State revenues. IPERS is a trust fund, separate and distinct from the General Fund of the State.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

IPERS is required to adopt rules to regulate and provide for the nature and extent of the proofs and evidence, and their method of taking, in order to establish the right to benefits authorized under Iowa Code chapter 97B.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

IPERS has not identified any less costly methods or less intrusive methods.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

Not applicable.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Not applicable.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The proposed rulemaking does not create a substantial impact on small business.

Text of Proposed Rulemaking

ITEM 1. Rescind 495—Chapter 8 and adopt the following **new** chapter in lieu thereof:

CHAPTER 8
SERVICE PURCHASES

495—8.1(97B) Service eligible for purchase.

8.1(1) *General.*

a. Scope. This chapter applies to service purchases under Iowa Code section 97B.80C.

b. Estimates and cost quotes. As set forth in Iowa Code section 97B.80C, IPERS calculates all service purchase estimates and cost quotes at actuarial cost.

c. Service purchase estimate prior to retirement. Upon completing and submitting a service purchase application, IPERS will calculate a written estimate of the cost of purchasing service under Iowa Code section 97B.80C. Members who are vested by service may request a service purchase estimate by completing and submitting a service purchase application. Once the application is submitted, IPERS shall complete a cost estimate. This calculation is an estimate only and is not considered binding. IPERS calculates the cost estimate as follows:

(1) IPERS will calculate the actuarial cost by capturing the projected baseline benefit attributes at the member's anticipated retirement date without any service purchase quarterly credits, including average salary, years of service, the Option 2 benefit amount, accumulated member contributions and the calculated present-day reserve value. The present-day reserve value is a lump sum value calculated with actuarial tables provided by the system's actuary that represents the lump sum value sufficient to pay the monthly benefits over the member's expected life span.

(2) With each potential purchasable quarterly service credit, IPERS will recalculate the Option 2 benefit amount. A new present-day reserve value will also be calculated. The cost of each quarterly service credit will be the difference between the new reserve amount and the previous one.

d. Final service purchase cost quote at retirement. On or before the date that a member's first benefit payment is issued, a member who is vested by service may request a final service purchase cost quote by completing and submitting an application for retirement/disability benefit indicating the member's desire to receive a final service purchase cost quote. After the member submits the completed application, IPERS shall generate a final service purchase cost quote once all of the member's wages are submitted to IPERS, which may be after the member's first month of entitlement. The final cost quote is calculated as follows:

(1) IPERS will calculate the cost by capturing the baseline benefit attributes at the member's first month of entitlement without any service purchase quarterly credits, including average salary, years of service, the Option 2 benefit amount, accumulated member contributions and the calculated present-day reserve value. The present-day reserve value is a lump sum value calculated with actuarial tables provided by the system's actuary that represents the lump sum value sufficient to pay the monthly benefits over the member's expected life span. With each potential purchasable service credit, IPERS will recalculate the Option 2 benefit amount. A new present-day reserve value will also be calculated. The cost of each purchasable quarter of service credit will be the difference between the new reserve amount and the previous one.

(2) The retired member will have six months from the date in which IPERS generates the final service purchase cost quote to purchase additional service.

(3) If the retired member purchases service within the six-month deadline, the increase in the retirement benefit is made effective with the month of the service purchase payment.

(4) Retired members who do not indicate their desire for a final service purchase cost quote on or before the date their first payment is issued or do not complete the purchase within the six-month

deadline indicated on the final service purchase cost quote are not eligible to purchase additional credit.

(5) Retired members who selected Option 1 upon retirement may request the lump sum death benefit to be increased to consider the additional contributions from making a service purchase. If the member requests an increase in the death benefit, the monthly benefit will be reduced to consider the increased death benefit.

e. Cost adjustments due to changes in the original retirement benefit. If an error in the service purchase cost is discovered or a retired member's account is adjusted in any manner after a purchase is made, IPERS may rescind the service purchase, adjust the service purchase cost, or adjust the retirement allowance to ensure the member paid the actuarial cost of buying additional service. If a retired member overpays due to an adjustment, IPERS will issue a refund to the retired member directly or to the rollover institution.

8.1(2) *Service credit for other public employment.*

a. A member may apply to purchase credit for service rendered to another public employer. IPERS requires a member to verify service for the other employer.

b. A period of service is defined as follows: (1) if a member was continuously employed by an employer, the entire time is one period of employment, regardless of whether a portion or all of the service was covered by one or more retirement systems and (2) if a member is continuously employed by multiple employers within a single retirement system, the entire service credited by that retirement system is one period of employment.

(1) A member with service credit under another public employee retirement system who wishes to transfer only a portion of the service value of the member's public service in another public system to IPERS must provide a waiver of that service time to IPERS together with proof that the other public system has accepted this waiver and allowed partial withdrawal of service credit.

(2) Members may purchase time credited by the other public employer as a leave of absence in the same manner as other service credit. However, members wishing to receive free credit for military service performed while employed by a qualifying non-IPERS covered public employer must purchase the entire period of service encompassing the service time for that public employer or in the other retirement system, excluding the military time. Veterans' credit originally purchased in another retirement system may be purchased in the same manner as other service credit.

8.1(3) *IPERS buy-back.* Members may buy back previously refunded IPERS service credit under the methodology of subrule 8.1(1).

8.1(4) *Veterans' credit.* A member may make a service credit purchase for a period of active duty service in the armed forces of the United States if the member produces verification of active duty service in the armed forces of the United States.

8.1(5) *Legislative members.*

a. Active members. Persons who are members of the Seventy-first General Assembly or a succeeding general assembly during any period beginning July 4, 1953, may, upon proof of such membership in the general assembly, make contributions to the system for all or a portion of the period of such service in the general assembly.

b. Vested or retired former members of the general assembly.

(1) The member shall submit to IPERS proof of membership in the general assembly for the period claimed.

(2) Upon determining a member's eligibility and receiving the appropriate contributions from the member, IPERS will credit the member with the period of membership service for which contributions are made.

c. Actuarial cost. Effective January 1, 2016, the member must be vested by service and must pay 40 percent and the Iowa legislature pays 60 percent of the actuarial cost of a service purchase, as certified by IPERS. In calculating the actuarial cost, IPERS applies the same actuarial assumptions, procedures and cost methods as those described in subrule 8.1(1).

8.1(6) *Employer-approved leaves of absence.* Members may purchase service credit for employer-approved leaves of absence that begin on or after July 1, 1998.

8.1(7) *Service credit for elective coverage positions—coverage not elected.* Members may purchase service credit for periods of time prior to January 1, 1999, when the member was employed in a position for which coverage could have been, but was not, elected.

8.1(8) *Service credit for noncovered public employment in Iowa.* A member who was previously employed in public employment for which optional coverage was not available, such as substitute teaching or other temporary employment, may purchase service credit for such employment subject to the requirements of Iowa Code section 97B.80C. Members cannot purchase service credit under this subrule for periods in which the individual was performing services as an independent contractor.

495—8.2(97B) Revocation of service purchase application and refund of amounts paid. A member may revoke a service purchase application and receive a refund without interest of all or a portion of amounts paid to IPERS to buy back prior service credit or to purchase credit for other service pursuant to Iowa Code chapter 97B. The revocation must be made in writing and must be made within 60 days after the date of receipt of such amounts by IPERS. Such refunds are in increments representing one or more quarters. This rule does not limit IPERS' ability to refund service purchase amounts when required in order to meet the provisions of the Internal Revenue Code (IRC) that apply to IPERS. This rule is effective for revocation requests received by IPERS on or after May 3, 1996.

495—8.3(97B) IRC Section 415(n) compliance. Service purchases made under this chapter, including buy-backs and buy-ups, are subject to the limitations of IRC Section 415(c)(1) as amended to August 1, 2026, per calendar year, as provided under IRC Section 415(n)(2)(B) as amended to August 1, 2026. In addition, the amounts contributed for service purchases under this chapter cannot exceed the amount required to purchase the service according to the current cost schedules. In implementing these and the other requirements of IRC Section 415(n) as amended to August 1, 2026, IPERS uses the following procedures.

8.3(1) If the member's total benefit at retirement passes the fully reduced IRC Section 415(b) (August 1, 2026) dollar limit test, IPERS shall pay the total benefit.

8.3(2) If the member's total benefit at retirement fails the fully reduced IRC Section 415(b) (August 1, 2026) dollar limit test, and the member made one or more service purchases, IPERS shall perform the applicable IRC Section 415 (August 1, 2026) tests, with adjustments for posttax service purchases and other posttax contributions, and pay excess amounts, if any, under a qualified benefits arrangement authorized under Iowa Code section 97B.49I.

8.3(3) IPERS permits the purchase of nonqualified service credit as defined under IRC Section 415(n) as amended to August 1, 2026.

a. "Nonqualified service" means:

(1) Service that is not qualified service under Iowa Code section 97B.80C; and

(2) Service for which no services were performed; and

(3) Service for which the member is entitled to receive retirement benefits under another retirement plan.

b. A member must have 20 quarters of existing service to make such a purchase. Nonqualified service credit purchased cannot exceed 20 quarters. This limit is an aggregate limit that applies to all quarters categorized as nonqualified service credit.

8.3(4) The limitations of this rule applies to buy-backs of prior refunds. In addition, the annual limit under this rule does not apply to service purchases grandfathered under the provisions of the Iowa Code and Section 1526 of the Taxpayer Relief Act of 1997 as amended to August 1, 2026.

8.3(5) If IPERS adopts rules and procedures permitting service to be purchased on a pretax basis, the amounts contributed will not be combined with posttax service purchases and other posttax contributions in applying the foregoing procedures.

8.3(6) The IRC Section 415(c) (August 1, 2026) limitations do not apply to a service purchase that qualifies as a direct rollover from an eligible retirement plan or a direct transfer from a plan qualified under IRC Section 403(b) or 457 as amended to August 1, 2026.

8.3(7) IPERS reserves the right to apply the limitations of IRC Section 415(n) as amended to August 1, 2026, on a case-by-case basis to ensure that such limits are not exceeded.

495—8.4(97B) Additional information, procedures and limitations.

8.4(1) *Additional service purchase procedures.*

a. Service purchase cost quotes for members currently in special service positions are prepared as special service credit.

b. Members covered under another retirement plan. Members who wish to buy service credit for employment that is covered by another retirement plan qualified under IRC Section 401 as amended to August 1, 2026, IRC Section 403 or 457 as amended to August 1, 2026, and similar plans and retirement pay from the United States government for active duty in the armed forces (except retirement pay for nonregular service pursuant to 10 U.S.C. Sections 12731-12739 as amended to August 1, 2026) must waive their right to benefits based on the service credit that is being purchased under IPERS.

c. Effective January 1, 2007, IPERS may, notwithstanding certain provisions of Iowa Code section 97B.82 adopted in order to comply with prior rollover provisions of the IRC, utilize forms and procedures permitting direct rollover service purchases to include after-tax amounts as provided under the applicable rollover provisions of the IRC as amended to August 1, 2026, subsequent to the enactment of Iowa Code section 97B.82.

8.4(2) *Additional service purchase limitations.*

a. Service purchases are not allowed for quarters already on file with IPERS as covered quarters.

b. If a member has requested a service purchase cost quote and, before the six-month expiration has passed, submits another request for a service purchase cost quote for the same or different employer, the new service purchase cost quote will be based on a combination of the two service purchase cost quotes. The latest service purchase cost quote supersedes all prior cost quotes provided to the member for the quarters that the member purchases after the issuance of the second cost quote.

c. Self-employed and independent contractor members. Members are not permitted to purchase service credit for periods of self-employment or as an independent contractor.

8.4(3) *Buy-up of service credit through service purchase.* Effective July 1, 2008, IPERS members may be allowed to buy up service credit. The term "buy up" means to convert regular service credit to special service credit by payment of the actuarial cost pursuant to the requirements of subrule 8.1(1).

a. Mixture of service time. If a member's service time contains a mixture of regular, protection and sheriff service credit, IPERS prepares buy-up cost quotes prior to other service credit purchases and processes the buy-up as follows:

(1) If the member is currently employed in the sheriff class or retired as a sheriff, the cost quote is prepared reflecting a buy-up to sheriff service credit.

(2) If the member is not currently employed in the sheriff class or did not retire as a sheriff, the cost quote is prepared reflecting a buy-up to protection occupation service credit.

b. Wage adjustment after a buy-up. If an employer wage adjustment completely removes a member's service credit in a buy-up quarter, IPERS will correct the service credit and perform the necessary recalculations.

c. IRS limitations. Buy-up service purchases are aggregated with buy-in and buy-back service purchases during a calendar year and cannot exceed the defined contribution dollar limit then in effect under Section 415(c) of the IRC as amended to August 1, 2026. Amounts that are rolled over from other qualified plans for service purchases are excluded from these limits.

495—8.5(97B) Adjustments. If an error in the service purchase cost is discovered or a member's account is adjusted in any manner after a purchase is made, IPERS may rescind the service purchase, make adjustments to the service purchase cost, or adjust the retirement allowance to ensure the active or retired member is paying the actuarial cost of buying additional service.

These rules are intended to implement Iowa Code sections 97B.1A, 97B.1A(13), 97B.1A(20), 97B.43, 97B.80, 97B.80C, and 97B.82.