

INSTRUCTIONS FOR COMPLETING THE REQUEST FOR REFUND

Important: Do you have five or more years of VRS service credit? Then you may be eligible for a monthly retirement benefit in the future. You will not be entitled to that benefit if you take a refund now. Use *myVRS* on the VRS Web site at www.varetire.org to see an estimate of the monthly retirement benefit you lose by taking a refund.

Are you eligible for a refund?

If all statements below are true, you may be eligible for a refund.

- I have terminated all VRS-covered employment.
- I do not receive Short-Term Disability (STD) or Long-Term Disability (LTD) benefits under the Virginia Sickness and Disability Program (VSDP).
- I am not on Leave Without Pay (LWOP).
- I am not an educator on summer break, who will return to employment at the beginning of the next contract period.
- I incurred a break in service of at least one full calendar month. (For those who left covered employment and returned to a non-covered position with the same employer.)
- I have not moved from a VRS-covered position to a position covered by an Optional Retirement Plan (ORP) without a break in service of at least one full calendar month.

What is a break in service? A break in service is a period of at least one full calendar month during which the employment relationship has ended and you are not working in any capacity with the employer who last reported you to VRS for retirement purposes, nor are you working in a covered position with any VRS participating employer.

For State Employees: The Commonwealth of Virginia is considered one employer. Moving from one employer to another within the Commonwealth is not considered a break in service unless there was at least one full calendar month between the two positions.

How do you want your refund paid?

Once you determine you are eligible, you need to decide how the refund should be paid. Your refund may be: 1) paid directly to you, or 2) paid in a rollover to a traditional individual retirement account (IRA) or another eligible plan that accepts rollovers. A rollover into another eligible plan or IRA allows you to continue to postpone taxation of the funds until it is paid to you.

Consider these questions if you are thinking about a rollover:

- *Does your refund contain both taxable and non-taxable funds?* This could affect your ability to rollover the funds. Ask your employer what portion of your refund is taxable (the portion on which taxes have not yet been paid) and what portion is after-tax (the portion on which taxes have already been paid). If you left your VRS-covered position more than six months ago, contact VRS for this information.
- *Does the employer plan accept rollovers?* An eligible employer plan is not legally required to accept a rollover. Verify that the recipient plan is a qualified retirement plan that can accept a direct rollover before you request a refund.

- *Do you have the necessary documents needed by your financial institution to process your rollover?*
- *Do you know if your plan will accept funds from VRS?* Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as after-tax amounts. You may want to roll your distribution over to a traditional IRA or split your rollover amount between an employer plan in which you will participate and a traditional IRA.
- *Have you verified if your plan restricts subsequent distributions of the rollover amount?* Your spouse's consent may be required for a distribution from the new plan. A distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this plan.
- *Did you know you may roll after-tax contributions to your new employer's qualified retirement plan?* You may do this if they provide separate accounting for amounts rolled over, including separate accounts for the after-tax employee contributions and earnings on those contributions. If you want to roll after-tax employee contributions to an employer plan, you must have the funds rolled over on your behalf; these funds cannot be paid to you first. After-tax contributions cannot be rolled into a governmental 457 plan.

Consider the taxes you will pay if the refund is paid to you:

Taking a refund can affect the amount of taxes you pay. Read the enclosed IRS 402(f) – Special Tax Notice to learn more. You may also contact the IRS at 800/TAX-FORMS or visit the IRS Web site at www.irs.gov.

Certain types of income taxes that may be withheld include the following:

- **Mandatory federal withholding:** VRS must withhold 20 percent of the taxable portion of the payment and sends it to the IRS as federal income tax.
- **State tax withholding:** If you live in Virginia at the time your refund is paid, VRS withholds an additional 4 percent of the taxable portion of the payment and sends it to the Virginia Department of Taxation as state income tax.
- **Additional tax penalty:** If you receive the refund before you reach age 59 and 1/2, you may also be required to pay an additional 10 percent tax penalty imposed by the IRS. You must report and pay this amount directly to the IRS.
- **60-Day Rollover Option:** If VRS pays the refund directly to you, you have 60 days to roll the pre-tax funds into a traditional IRA or another qualified plan that accepts rollovers. Taxes are withheld as listed above. You may replace federal and state tax withholdings with personal funds to roll over 100 percent of the refund. Otherwise, the tax withholding portion is subject to taxation in the year it is withheld. The amount rolled over is not taxable until you receive the funds.

Other Important Information

- The refund process takes 45-60 days after your employer last reports you to VRS or after the date VRS receives your request, whichever is later.
- If your refund of taxable funds is less than \$200, it is paid directly to you and no taxes are withheld.
- If you roll over your refund into another qualified plan or traditional IRA and then return to a VRS-covered position, the funds may be returned to VRS, tax-deferred, if you purchase the refunded service using those funds.
- Attachments such as child support, bankruptcy claims or approved domestic relations orders (ADRO) may also affect the taxes you pay and the amount of time needed to process your request.
- If you take a refund, you are no longer covered by group life insurance. You can convert your VRS basic group coverage to an individual policy within 31 days of the end of the month in which you left employment.
- Optional life insurance coverage ceases at termination of employment. It can be converted to an individual policy within 31 days of the end of the month in which you left employment.
- Once you take a refund of your contributions you cannot apply for regular disability retirement. If you believe that you are eligible for VRS disability benefits, apply for disability retirement within 90 days of leaving your covered position and do not process a Request for Refund (VRS-3).

Completing the Form

Box 1-6: Enter your Social Security number and personal information. If this information is not provided, processing of your refund will be delayed.

Box 7: Choose Yes or No. VRS withholds Virginia state income taxes if you reside in Virginia.

Box 8a (after-tax contributions): After-tax contributions are those funds on which taxes have already been paid. Choose a percentage of the after-tax contributions to be paid to you or rolled into an eligible plan. Enter the percent of the *after-tax* portion that you want paid directly to you on the first line and the percent to be paid to your financial institution as a rollover on the second line. Your choices must total 100 percent.

Box 9a (taxable contributions): Taxable contributions are those funds on which taxes have not yet been paid. Choose a percentage of each amount to be paid to you or rolled into an eligible plan. Enter the percent of the *taxable* portion that you want paid directly to you on the first line and the percent to be paid to your financial institution as a rollover on the second line. Your choices must total 100 percent.

Boxes 8b and 9b (For rollovers only): Provide the financial institution information for your *after-tax* rollover in 8b. Provide the financial institution information for your *taxable* rollover in 9b. (Do not attach documents from your financial institution to this form. VRS cannot use these documents, or information from them, to process your request.)

Box 10: Sign and date the form. If you left your VRS-covered position within the last six months, forward this request to your employer who must complete Part B. Your employer submits the completed form to VRS after your final payroll is reported. If you left your VRS-covered position more than six months ago, have your signature notarized and send the form directly to VRS.