



August 1, 2008

Information Bulletin:

Optional Retirement Plan for Higher Education

The Optional Retirement Plan (ORP) for Higher Education Information Bulletin includes information about eligibility, election procedures, termination processing, auxiliary benefits and resources available to you and your eligible employees.

Eligible Employees

The Optional Retirement Plan (ORP) for Higher Education was established for employees of Virginia's public colleges and universities who could benefit from the portability of a defined contribution plan and to assist institutions of higher education recruit faculty employees. Eligible employees may choose retirement benefits provided by the Virginia Retirement System (VRS) defined benefit plan or the Optional Retirement Plan (ORP) for Higher Education.

Eligible employees include:

- Full-time and part-time, salaried employees in teaching, administrative or research positions who hold faculty rank.
- The president of a participating institution of higher education.
- The Chancellor of the Virginia Community College System.

Election Procedures

VRS establishes election procedures for the ORP for Higher Education. The following election

Resources

VRS Web Site:

The following resources are available on the VRS Web site at www.varetire.org.

[Choosing Your Retirement Plan: Guidelines and Provider Information](#)

[Handbook for Participants](#) in the Commonwealth of Virginia Optional Retirement Plan for Higher Education

[Plan Document](#)

[Investment Policy](#)

[Master Trust](#)

[Optional Retirement Plan Forms](#)

Fidelity Investments Web Site:

<http://www.mysavingsatwork.com/atwork.htm>

Voice response system and customer service: 1-800-343-0860
<http://www.fidelity.com/atwork>

TIAA-CREF Web Site:

<http://www.tiaa-cref.org>
1-800-842-2776 (telephone counseling center)
1-800-842-2252 (voice response system)

procedures apply also to institutions of higher education that have established their own optional retirement plans:

1. The employer provides the comparison guide, [Choosing Your Retirement Plan: Guidelines and Provider Information](#) and the forms needed to elect the ORP for Higher Education to eligible employees.
2. To elect the ORP, the eligible employee completes the [Election to Participate – Optional Retirement Plan for Higher Education \(VRS-65\)](#) within 60 days from the date of employment.
3. The employer sends the original VRS-65 to VRS and retains a copy for the employee's file.
4. Employees who elect the ORP for Higher Education choose from the two available providers: Fidelity Investments and TIAA-CREF.
5. The employee completes the enrollment, investment direction and beneficiary designation forms for the provider selected.

Election Deadline

Eligible employees have 60 days from their date of employment to elect the ORP for Higher Education. Employees who do not complete and submit the VRS-65 by the required deadline will be covered by the VRS defined benefit plan.

Transfers and Breaks in Service

Eligible employees who transfer from one institution to another with no break in service remain in the retirement plan elected when first employed in an eligible position.

Employees who experience a break in service from a covered position for at least one full month must make a new election upon return to employment. A break in service is a period of at least one full calendar month where the individual is not employed by any agency of the Commonwealth and receives no retirement, life insurance or health insurance benefits. The following types of leave are not considered breaks in service:

- Summer breaks
- Annual leave
- Sick leave
- FMLA leave of less than 12 weeks (or more, based on employer's policy)
- Educational leave
- Sabbaticals.

Important: Continue to report group life insurance to VRS if the employee is on leave without pay. This will prevent an employee in the ORP from becoming inactive in VRS.

Payroll Processing

If the employee elects the ORP for Higher Education within 60 days of employment, pay contributions to the provider of choice, retroactive to the date of employment. Until the employee makes an election, report ONLY group life insurance amounts to VRS on your monthly payroll reports.

If contributions were made in error to the VRS defined benefit plan prior to the election of the ORPHE, follow these procedures to correct the record:

- File a Credit - Interagency Transfer (IAT - Transaction Code 347) with VRS for the employee's mistaken contributions.
- Forward an [Error Adjustment Report \(VRS-1501\)](#) form to correct the employee's records.
- VRS will remove erroneous service from the employee's records.
- Make contributions to the employee's chosen provider retroactive to the date of employment.

If the employee does not complete and submit the VRS-65 within 60 days of employment:

- Submit an [Error Adjustment Report \(VRS-1501\)](#) to add creditable compensation for the payroll periods previously reported for group life only. VRS will charge the adjustment to your employer account through suspense on the VRS-1500R. Adjust the payment due to VRS on the next reporting period after you receive the VRS-1500R.

Plan-to-Plan Transfer of VRS Member Contribution Account

An employee with a VRS member contribution account who elects the ORP for Higher Education may transfer the account balance to the ORP through a plan-to-plan transfer. A transfer of the VRS account balance cancels the employee's right to a VRS retirement benefit. The employee completes the [Request for Transfer of Refund to Optional Retirement Plan \(VRS-3 ORP\)](#) to make the transfer.

Rollovers to the ORP for Higher Education

Employees who choose the ORP for Higher Education may consolidate their retirement plans by rolling the balances from other plans into the ORP. Other

plans include 401(a) plans, 401(k) plans, 403(b) plans and the Individual Retirement Accounts (IRAs).

Compliance Monitoring

As the plan administrator for the ORP for Higher Education, VRS monitors compliance with statutory provisions governing the plan. This includes monitoring VRS records to determine that an election form is on file for each employee identified in the VRS Retirement Information Management System (RIMS) as participating in the ORP. If VRS determines that no election form is on file, but contributions are going to an ORP provider, VRS will direct the provider to return the contributions to the institution and will notify the institution that the employee must be reported to VRS for retirement purposes. The employer must send VRS contributions retroactive to the employee's date of employment.

Auxiliary Benefits

Generally, employees who chose the ORP for Higher Education have the same auxiliary benefits as those covered by VRS:

Group Life Insurance – ORP participants have the same life insurance coverage as employees in the VRS defined benefit plan. Coverage includes basic group life, accidental death and dismemberment coverage and optional coverage for the participant, spouse and dependents. In retirement, the benefit continues unless there is a total distribution from the ORP account.

Health Insurance – While actively employed, ORP participants have the same health insurance options as employees of their institution who are covered by the VRS defined benefit plan. At retirement, ORP participants have the state retiree health insurance coverage, provided they are receiving an immediate annuity or periodic distribution from their ORP account and they were eligible for coverage as an active employee immediately prior to retirement.

Health Insurance Credit – ORP participants with at least 15 years of combined service with VRS and ORP are eligible for a credit toward the cost of their health insurance premiums in retirement. To qualify, participants must receive periodic distributions from the ORP and pay the cost of their individual premiums.

Employers complete and submit the [Employer Certification of ORP Health Insurance Credit \(Form VRS-75\)](#) to VRS at the time the employee retires to certify that the employee is eligible for the retiree health insurance credit.

Disability Benefits/Virginia Sickness and Disability Plan (VSDP) – While newly hired faculty are considering a retirement plan choice, they are

covered for benefits under the Virginia Sickness and Disability Program (VSDP). Employees who choose the ORP are not eligible for VSDP short-term and long-term disability or long-term care benefits. They also are not eligible for VRS disability retirement benefits. However, they may be eligible for disability coverage provided by their college or university or they may have additional disability coverage available for purchase through the college or university.

Tax Deferred Savings Plans – Regardless of the retirement plan they choose, employees are eligible to participate in both the Commonwealth of Virginia 457 Deferred Compensation Plan (457 Plan) and any 403(b) arrangement provided by their institution.

For additional information about auxiliary benefits, read the [*Handbook for Participants in the Commonwealth of Virginia Optional Retirement Plan for Higher Education*](#).

Domestic Relations Orders

An employee participating in the ORP for Higher Education who is involved in a divorce that includes a domestic relations order may contact the VRS Member Services Department. That department will counsel with the employee and his or her legal counsel on the proper wording of the order so it can become a VRS Approved Domestic Relations Order (ADRO).

Compensation Limits

Internal Revenue Code Section 401(a)(17) establishes annual compensation limits for the ORP for Higher Education. Compensation limit changes apply to plan years beginning in the calendar year for which the limit is announced. For plan year July 1, 2008 through June 30, 2009, the annual compensation limit is \$230,000.

Employers offering an ORP may make a discretionary contribution to the Commonwealth's 457 Plan. The employer discretionary contribution may be useful in situations where the full ORP contribution based on an employee's total compensation cannot be contributed to the ORP because the 401(a)(17) limit has been reached.

Example: Employee salary is \$275,000 for calendar year 2008, which spans two plan years. Contributions of 10.4% to the participant's ORP will yield \$28,600, which is above the 401(a)(17) limits.

The 401(a)(17) limit for the plan year July 1, 2007 to June 30 2008 is $\$225,000 \times 10.4\% = \$23,400 \div 2 = \$11,700$.

The 401(a)(17) limit for the plan year July 1, 2008 to June 30 2009 is $\$230,000 \times 10.4\% = \$23,920 \div 2 = \$11,920$.

In calendar/tax year 2008, only \$23,660 can be contributed to the ORP for Higher Education.

Plan Contribution based on 10.4% of compensation = **\$28,600**
Employee's 401(a)(17) limit for contract year 2007 = **\$11,700**
Employee's 401(a)(17) limit for contract year 2008 = **\$11,960**
Total 401(a)(17) limit for contract year = $\$11,700 + \$11,960 = \mathbf{\$23,660}$
Total contribution due to employee over 401(a)(17) limit, $\$28,600 - \$23,660 = \mathbf{\$4,940}$

The amount of contributions beyond what is allowed by the 401(a)(17) limits and which could go to the 457 Plan or 403(b) arrangement as an employer discretionary contribution is \$4,940.

The Internal Revenue Code also sets an annual limit on the amount of deferrals that can be made to the 457 Plan. In 2008 the limit is \$15,500 for persons under age 50 and \$20,500 for those 50 and over. The limit for employees who qualify for the 457 Standard Catch-Up is \$31,000. Both employee deferrals and employer discretionary contributions are included when determining when the limit has been reached.

Termination Certification

When leaving covered employment, an employee who elected the ORP for Higher Education must complete a [Termination Certification Form – ORP for Higher Education \(VRS-65D\)](#). The purpose of this form is to:

- Provide information needed by the employer to determine if the employee is eligible for an ORP distribution.
- Advise the employee of the impact of the choices made at termination on post-employment benefits.
- Provide employer certification of eligibility for continued VRS group life insurance, based on the period of ORP coverage.

The employer sends the completed VRS-65D to VRS and keeps a copy for the employee's record. If the employee qualifies for a distribution from the plan, the employer signs the provider's distribution form to authorize distributions.

Important: Do not authorize ORP distributions without having first received the signed VRS-65D from the employee.

Types of Distributions That Must Be Approved by VRS

VRS must approve the following types of distributions:

- Plan distributions for an ORP participant who ceased to be your employee prior to July 1, 2004
- Distributions from the four de-selected providers: Great-West, VALIC, T. Rowe Price and Met Life

- Distributions for employees of institutions with their own optional retirement plans when the employee terminates employment prior to the effective date of the plan.

Returning to Work After Distributions Begin

The Internal Revenue Service (IRS) requires an employee to sever employment with the employer who provides the retirement plan in order to be eligible for a distribution from the plan.

Employees who retire from an ORP for Higher Education covered position and begin receiving a distribution, other than an annuity payment, and later return to work in any position covered by a retirement plan authorized by Title 51.1 of the *Code of Virginia* must stop further distributions while employed. Plans authorized by Title 51.1 of the *Code of Virginia* include:

- Virginia Retirement System defined benefit plan
- Judicial Retirement System
- Virginia Law Officers' Retirement System
- State Police Officers' Retirement System
- ORP for Political Appointees
- ORP for School Superintendents
- Any optional retirement plan for higher education
- Alternate Retirement Plan.

A transfer from one participating institution to another institution or agency of the Commonwealth is not considered a severance of employment. The IRS considers all agencies and institutions of the Commonwealth of Virginia to be a single employer.

A transfer from an eligible position to one not eligible for the ORP for Higher Education also is not considered a severance of employment.

Helping Employees Make an Informed Choice

When deciding on a retirement plan, your employees will want to consider their long-term goals. They'll also want to know about the investment options and risks, tax implications and the effect their choice will have on other VRS-provided benefits, such as group life insurance, health insurance and disability benefits.

You can take the following steps to help eligible employees make the choice that's right for them:

- Make sure they clearly understand the features of the VRS defined benefit plan and the ORP for Higher Education. Refer your employees to the comparison guide, [Choosing Your Retirement Plan: Guidelines](#)

[and Provider Information](#). This guide includes a side-by-side comparison of the plans and information about auxiliary benefits.

- Provide an estimate for those who have VRS defined benefit service credit so they can see the approximate value of their benefit if they continue in the VRS plan. You can provide this estimate easily using *myVRS* for Employers.
- Inform them of the resources available to them on the VRS Web site at www.varetire.org, including VRS handbooks and guides.
- Refer them to Fidelity Investments' and TIAA-CREF's automated phone and telephone counseling systems listed in the Resources area of this Information Bulletin.
- Counsel them to exercise care in choosing a retirement plan. The election is irrevocable as long as the employee remains in an eligible position with any of the public institutions of higher education in Virginia.
- Make sure the employee completes the VRS-65 within 60 days of the date of hire if the employee feels that the ORP better fits his or her needs.
- If the employee chooses the ORP, ensure that the employee completes the enrollment, investment direction and beneficiary designation forms of the provider selected.