

Employer Update



A PUBLICATION OF THE VIRGINIA RETIREMENT SYSTEM

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VRS Announces Gain For Fiscal Year 2005

VRS announced a 12 percent investment return for fiscal year 2005. As of June 30, assets totaled \$44 billion, a record level for the system.

Each of the fund's five asset classes had a positive return during the fiscal year. Real estate had a 24.4 percent return and private equity had 21.5 percent. The public equity portfolio had a 12.3 percent return, and the hedge fund portfolio had a 9.0 percent return. Credit strategies returned 7.6 percent and fixed income returned 7.2 percent.

The portfolio had \$27.6 billion in public equities, \$8.7 billion in fixed income, \$1.7 billion in credit strategies, \$1.8 billion in real estate, \$1.7 billion in hedge funds and \$2.2 billion in private equity as of June 30, 2005.

"The investment staff is very pleased with its investment results for fiscal year 2005. All of the investment programs generated above average returns and the total portfolio exceeded its performance benchmark by a significant margin," said Acting Chief Investment Officer Charles W. Grant.

VRS Board Appoints Charles Grant As CIO

The VRS Board of Trustees selected Charles W. Grant as chief investment officer (CIO).

Since March, Grant has served as acting CIO after the departure of the former chief investment officer. Grant joined VRS in 1995 as the chief fixed income officer. Before joining VRS, Grant was the senior vice president at Commonwealth Investment Counsel in Richmond.

"Charles brings an impressive blend of demonstrated leadership, investment skill and personal integrity to the position of CIO. Clearly, he has had a major role in assembling one of the most highly qualified and successful investment staffs in the country. VRS and the Commonwealth of Virginia are fortunate to have someone of his caliber to oversee the system's \$44 billion investment portfolio," said Board Chairman Paul W. Timmreck.

Look For MBPs In September

VRS plans to mail the 2005 Member Benefit Profiles (MBPs) to employers by mid-September. These annual benefits statements provide your employees with information about their VRS benefits as of June 30, 2005. The MBPs show your employees the amount of contributions and interest in their accounts and the estimated monthly benefits they will qualify for at both unreduced and early retirement.

Because this information is important for retirement planning, the MBPs should be distributed to your employees as soon as possible.

You can assist employees who find discrepancies in their MBPs by completing a Request for Review of Membership Records (VRS-70) and returning it to VRS. This form will be mailed to employers, along with other instructions for distribution. The VRS-70 form also can be found on the VRS Web site on the Employer Forms page.

Meeting Requirements For Return To Work

Effective with January 1, 2006 retirements, members and employers must complete additional certifications on the Application for Service Retirement (VRS-5) to ensure compliance with Internal Revenue Service (IRS) "In Service Distribution" rules for retirees returning to work.

Members must certify that they are not returning to work without at least a 30-day break in service during a period when they would normally work, and that they are terminating all full-time and part-time positions with any employer participating in VRS.

Human resource officers must certify that the employee has left all positions with that employer, full-time or part-time, before VRS can pay retirement benefits.

In addition, the employer must certify that once the employee has retired, he or she will not be re-hired without at least a 30-day break in service during a normal work period.

Watch the VRS Web site for the new VRS-5, which will be available in September.

Could Your Employees Be Eligible For Portability?

Current VRS members vested in one of the public retirement systems of the City of Charlottesville, the City of Danville, the City of Newport News, the City of Norfolk, the City of Richmond, the City of Roanoke, or the County of Fairfax, could be eligible for portability.

An agreement, called a portability agreement, allows a VRS member with five or more years of service to transfer funds from certain local government retirement systems to VRS to purchase service credit. The agreement allows the reverse as well. A vested former VRS member who is employed at one of these localities may transfer assets from VRS to purchase service with that local government public retirement system.

An eligible member must apply for portability within 18 months of beginning VRS-covered employment. For new portability agreements, the member must apply within 18 months following the effective date of the agreement.

Limits Set On Amounts For Determining Average Final Compensation

The Internal Revenue Code Section 401(a)(17) limits the amount of compensation that a governmental plan can take into account for purposes of calculating the Average Final Compensation. For members employed on or after April 9, 1996, the limit is \$210,000. For members employed before April 9, 1996, the limit is \$315,000. These amounts apply to the plan year beginning July 1, 2005 and ending June 30, 2006. Any excess over and above the compensation limits should not be reported to VRS for retirement purposes.

Authorization Form To Be Mailed To VRS Agency Heads

As the functionality and availability of QuickAccess continues to increase, VRS is taking steps to protect the privacy and security of member records. VRS will use a new form, the Employer Certification of Authority (VRS-67A), to obtain contact information about the agency head and one other administrative contact who is authorized to sign the Authorization of Contacts (VRS-67). This form is required for security and audit purposes and to ensure compliance with the Virginia Government Data Collection and Dissemination Practices Act. The VRS-67A form is also the first step in a plan to conduct annual audits of VRS employer contact information. It is essential that every VRS employer have this form on file. The form and a letter explaining the use of the form will be mailed to all administrative heads responsible for oversight of each agency in the near future.

The IRS Requires A Break In Service Before Distributions From Tax-Deferred Plans

Internal Revenue Service (IRS) regulations for tax deferred retirement and retirement savings plans require an employee to have a *bona fide* break in service before receiving a distribution.

A *bona fide* break in service is a period of at least one reporting month during a period of time the employee would normally work, and begins when the employee is off the payroll of the participating employer. The employer cannot contribute to the employee's retirement plan on the employee's behalf,

the employee cannot earn service credit (in the defined benefit plan) and there can be no group life insurance coverage, other than the residual end-of-employment group life insurance coverage.

Summer breaks, annual leave, sick leave, FMLA leave of less than 12 weeks (or more depending upon the employer's policy), educational leave and sabbaticals do not count toward the time required for a *bona fide* break in service.

A *bona fide* break in service also is required for an employee in one of the Optional Retirement Plans (ORPs) to be eligible to select a different plan when moving to another employer offering an optional plan. Unless the employee has a *bona fide* break in service, he or she must stay in the plan originally selected. This requirement applies to the ORP for Higher Education, the ORP for Political Appointees and the ORP for School Superintendents.

Revised Handbooks Available On Web Site

All VRS handbooks now reflect changes from the 2005 legislative session. The *Handbook for Members* of the Virginia Law Officers' Retirement System, the *Handbook for Members* of the Virginia Retirement System and the *Handbook for Members* of the State Police Officers' Retirement System are available on the VRS Web site at www.varetire.org under Member Forms and Publications.

Copies of the revised *Handbook for Members* of the Virginia Retirement System are being mailed to all employers for distribution to new employees. Remember, Virginia law requires all new employees receive a copy of the handbook within 90 days of their hire date. Existing supplies of SPORS and VaLORS handbooks will be used up before printing additional copies. A summary sheet of legislative changes has been prepared for distribution with the existing handbooks. Copies of the handbooks are available upon request.

Encourage Employees To Attend Retirement Education Seminars And Counseling Sessions

Encourage your employees to take advantage of the free retirement planning educational opportunities provided by VRS.

The half-day Retirement Education Seminars are for members who are more than five years away from retirement. They focus on decreasing debt, using financial planning to prepare for retirement and using benefits such as deferred compensation to enhance retirement benefits.

Members who plan to retire within the next five years may register for a VRS Group Counseling Session. These half-day sessions provide an overview of VRS benefits, financial and legal concerns in retirement, steps for investing,

guidelines on purchasing prior service credit, and help with completing the retirement application.

The latest schedules for the Retirement Education Seminars and Group Counseling Sessions are available on the VRS Web site at www.varetire.org under the Member tab.

Forms Update

The following forms have been revised and are available on the VRS Web site at www.varetire.org/forms:

Designation of Beneficiary (VRS-2 Rev. 08/05) and Continuation (VRS-2A Rev. 08/05): Both forms are revised to require the date of birth for the member submitting the form.

Employer Information for Disability Application (VRS-6D Rev. 08/05): This form is revised to clarify that employers should *only* provide information regarding how the employee's job is limited. References to any type of medical condition should not be made on this form.

Election of Employer for VRS Reporting (VRS-9 Rev. 08/05): For employees who are employed in more than one VRS-covered position, this form must be completed and authorized by the employer who is selected by the member to be reported under. The form must also be completed and authorized by any other employers covered under VRS that the member will be working for during the same reporting period. This ensures VRS knows which employer is reporting the employee through the monthly reporting process.

Employer Certification of Involuntary Separation under WTA (VRS-11 Rev. 07/05): The worksheet on page 2 was updated to clarify how to calculate the life insurance premium.

Authorization of Employer Contacts (VRS-67 Rev. 07/05): The VRS system was recently updated to allow employees who are not reported to VRS (identified as 'non-VRS' on the form) to be designated as contacts. Additional changes allow 'non-VRS' employees to use the QuickAccess system if the contact is designated as a human resource or payroll contact who requires QuickAccess. The form is revised to request the birth date for 'non-VRS' employees who will be using QuickAccess.

Certification of Exception from General Early Retirement Provisions (VRS-8 Rev. 07/05): This form has been updated to VRS form standards. No changes were made to the content of the form.

Additional Changes: The monthly employer reporting forms listed below have been revised by removing the column for reporting Optional Life Premium. This information is no longer reported to VRS on these forms.

Monthly Contribution Worksheet (VRS-52 Rev. 07/05)

Monthly Membership Report (VRS-1500 Rev. 07/05)

Error Adjustment Report (VRS-1501 Rev. 07/05)

Completing Forms Is Easier

Employers and members who need to complete any one of the most popular VRS forms can now simply turn to their keyboards.

VRS is making some of the most commonly used forms available as fillable PDFs on the Web site. Users can fill them out on-line, print the completed version and mail them to VRS. VRS will assess feedback on the ease of use of these forms before making all forms available as on-line fillable forms in the coming months.

The following forms will be available as fillable PDFs:

Designation of Beneficiary (VRS-2)

Designation of Beneficiary – Continuation (VRS-2A)

Request for Refund (VRS-3)

Application for Service Retirement (VRS-5)

Request for Income Tax Withholding (VRS-15)

Application for Purchase of Prior Service Credit (VRS-26)

Request for Health Insurance Credit (VRS-45)

Change to Certification for Retirement (VRS-49)

Authorization for Direct Deposit of Monthly Benefit (VRS-57)

Authorization of Employer Contacts (VRS-67)

State Employers Update

Colleges And Universities Employees Have 60 Days To Submit VRS-65 Forms

Teaching, research and administrative faculty of Virginia's public colleges and universities have the option to participate in the Optional Retirement Plan (ORP) for Higher Education or the optional retirement plan sponsored by their institution, instead of the VRS Defined Benefit Plan. Employees who elect to participate in the ORP or an institution-sponsored optional retirement plan must complete the Election to Participate in the Optional Retirement Plan for Higher Education (VRS-65) within 60 days of employment.

Employers should send these forms to VRS as soon as they are completed.

If an employee does not complete a form within 60 days of employment, he or she is automatically covered by VRS.

VSDP Short-term Disability Change

Under the Virginia Sickness and Disability Program (VSDP), employees who miss work for at least seven consecutive days because of a medical condition or work-related illness or injury, are eligible to apply for short-term disability benefits.

Effective July 1, 2005, the short-term disability period under VSDP changed from 180 calendar days to 125 workdays. Employees whose short-term disability is expected to extend beyond 125 workdays will be placed on long-term disability, assuming all other requirements are met.

This change is the result of legislation passed during the 2005 session of the General Assembly and is consistent with the use of workdays to determine income replacement levels.

The 125-workday period applies to employees with a date of disability of July 1, 2005 or after. Employees who were on short-term disability before July 1 will continue under the 180-calendar day requirement.

Strong Employer Participation Makes 2005 VSDP Partnership Meetings A Success

Attended by more than 200 benefit administrators and payroll representatives, the 2005 VSDP Partnership Meetings focused on the importance of teamwork in managing the claims of employees on short-term and long-term disability. Michelle Jackson, National Practice Account Manager for UnumProvident and Walter Lindsey, VSDP Account Representative for VRS, conducted the four seminars, held at several locations around the state in April and May. Topics included an overview of the UnumProvident Benefit Center and a discussion of Return-to-Work issues. In addition, modules were presented on the automation of the Job Modification Process and on the features of UnumProvident's on-line Comparative Reporting and Analysis system. Special thanks go to the following agencies for their hospitality in hosting the meetings: Thomas Nelson Community College, Radford University and Germanna Community College.

Contributing Employment Termination Pay To The Commonwealth Of Virginia 457 Deferred Compensation Plan

At termination of employment, an employee may be eligible to receive payment for unused annual leave, sick leave or other leave. These payments, called employment termination pay, are subject to federal and state income tax when received.

The employee may defer paying state and federal income tax by contributing some or all of these payments into the Commonwealth of Virginia 457 Deferred Compensation Plan. Payments for eligible annual leave, sick leave

(including Virginia Sickness and Disability Program disability credits) and back pay can be contributed along with other compensation.

The following conditions must be met before these funds can be contributed to the Deferred Compensation Plan (DCP):

- The employee must participate in the DCP or have enrolled in the plan and be eligible to defer funds into the plan no later than the last month of employment.
- Eligible termination payments deferred to the DCP combined with regular payroll deductions to the DCP while employed may not exceed 100 percent of compensation or the 457 Plan Annual Limit for that year, whichever is less. The employment termination pay itself is considered compensation for the calendar year in which it is paid.
- The employee must complete and sign the **Commonwealth of Virginia Deferred Compensation Plan Payroll Authorization Form** requesting the employment termination pay be deferred to the DCP. The employee must give the form to the employer's payroll office while he or she is still an employee, no later than the month before the month in which the termination pay will be paid. This form is available on the Plan Web site at www.vadcp.com under Plan Information/457 Deferred Compensation/Forms.
- Subject to the conditions described above, the employee may defer some or all of the employment termination pay to the DCP.

Questions about deferring Employment Termination Pay to the DCP may be addressed to the service provider, Great West Retirement Services at 1/866/226-6682 (option 2).