10

Chapter 10. Post Retirement Benefits

Table of Contents

Table of Contents (continued)

10

Post Retirement Benefits

This chapter provides information about VRS benefits for eligible members after retirement. These benefits include: a monthly retirement benefit for life, with regular *cost-of-living adjustments*; a credit toward the cost of health insurance; group life insurance coverage; and deferred compensation plan coverage for eligible members. Retirees who select the Survivor Option make it possible for a *contingent annuitant* to receive a monthly retirement benefit.

DIRECT DEPOSIT

Payments are made through direct deposit.

VRS deposits monthly benefit payments through Electronic Funds Transfer (EFT) into a retiree or beneficiary's bank, credit union, or other financial institution account. Deposits are made on the first of each month or the last working day of the preceding month if the first falls on a holiday or weekend. The annual direct deposit schedule is published in the winter edition of *Retiree News*, available on the VRS Web site.

Direct deposit is initiated at retirement by completing an Authorization for Direct Deposit of Monthly Benefit (VRS-57). A retiree who changes financial institutions must complete a new VRS-57 to have deposits made to a different account. Until this form is processed, VRS continues to send retirement payments to the old account. After the VRS-57 has been processed, a confirmation notice is sent to advise the retiree of the effective date of the direct deposit in the new account. VRS recommends that a retiree not close the old account until after the first deposit is made into the new account.

TAXES

Benefits are subject to federal and state income taxes.

In most cases, a retiree must pay federal and state taxes on the retirement benefit. The benefit is exempt from taxes only if the retiree qualified for the guaranteed benefit under work-related disability retirement. A work-related disability payment benefit is exempt from federal and state taxes if the retiree receives the guaranteed benefit (66 and 2/3 percent or 50 percent of average final compensation). If the retiree receives the VRS formula amount under the work-related disability, the benefit is taxable income. For more information, see Chapter 9 “Disability Retirement” in this manual.

The retiree completes and submits a Request for Income Tax Withholding (VRS-15) with the retirement application. The VRS-15 allows retirees to indicate how federal and state income taxes will be withheld from the monthly benefit payment. If VRS does not have this form on file, taxes are automatically withheld based on a status of married claiming three allowances for federal income tax withholding and zero allowances for state income tax withholding.

A retiree who does not want taxes withheld should notify VRS using a VRS-15. By not having taxes withheld, a retiree may be responsible for paying estimated taxes, and tax penalties may be assessed if the retiree’s withholding and estimated tax payments are insufficient.

A retiree may change the withholding amount at any time during the year by filing a new VRS-15. A change to the withholding may be needed if the retiree marries, divorces or has other changes during the year that affect tax status. A retiree who is not claiming resident status in Virginia and will not file income taxes with the Commonwealth of Virginia must complete the VRS-15, marking the block indicating “non-resident” status for state taxes.

In addition, the value of a retiree's basic life insurance coverage in excess of $50,000 is subject to FICA and federal and state income tax withholding. The imputed income is reported each year on a W-2 form. Any taxes withheld for FICA and federal and state income taxes are deducted from the monthly benefit.

The staff of the nearest IRS office or a personal tax advisor can help a retiree determine actual federal tax liability. A retiree can also contact the taxpayer assistance unit of the Virginia Department of Taxation at 1/804/367-8031 for help determining state tax liability.

VRS makes every effort to provide the best tax information available, but it is the retiree's responsibility to ensure compliance with federal and state tax laws.

Partly Taxable Payments

A portion of each benefit payment may be excluded from taxable income if the member had VRS contributions that had been contributed on an after-tax basis.

The IRS's Expected Return Rule determines the rate at which these previously taxed contributions may be recovered. Under this rule, these retirement contributions are recovered evenly over an estimation of the expected lifetime, or the combined expected lifetime of the retiree and a survivor if there are survivor benefits to be paid, up to as long as 410 months. The length of the recovery period is determined in part by the age, or combined ages, at retirement and the retirement date. More information on the Expected Return Rule is available on the IRS Web site (www.irs.gov) in IRS Publication 939.

COST-OF-LIVING ADJUSTMENTS

A member who is retiring with an unreduced benefit or with a reduced benefit with at least 20 years of service is eligible for a *cost-of-living-*

adjustment (COLA) on July 1 after one calendar year from the actual date he retires. For a member who retires with a reduced benefit with less than 20 years of service, the COLA will go into effect on July 1 after one calendar year following his unreduced retirement eligibility date.

Note: Members who will be within five years of qualifying for an unreduced benefit on January 1, 2013 will receive a COLA on July 1 of the second calendar year after retirement

Because VRS pays retirement benefits in arrears, the COLA is reflected in the August 1 payment. Adjustments are effective yearly thereafter on July 1.

Example: If a person retired on September 1, 2010, the first COLA is effective with the July 1, 2012 payment, payable on August 1, 2012.

Note: A January 1st retirement date is considered to be in the previous calendar year, and the retiree is eligible for a cost-of-living adjustment after the first calendar year of retirement. For example, a person retiring on January 1, 2010 is eligible for a COLA effective July 1, 2011, reflected in the August 1, 2011 payment.

The amount of the COLA is determined by the CPI-Urban.

The amount of the COLA is directly dependent upon the Consumer Price Index-Urban (CPI-U). A Plan 1 retiree receives the full amount of the first 3 percent increase in the CPI-U and half of the next 4 percent. The maximum COLA is 5 percent.

Plan 2: A Plan 2 retiree receives the full amount of the first 2 percent increase in the CPI-U and half of the next 2% of increases up to 3 percent in any given year.

Because COLAs are based on the rate of inflation, they are not guaranteed to occur each year. If there is no increase or even if there is a decrease in the CPI-U, the monthly retiree benefit amount will not be reduced.

A retiree under the Advance Pension Option receives a COLA that is calculated using the Basic Benefit the retiree would have received had the Advance Pension Option not been selected.

APPROVED DOMESTIC RELATIONS ORDERS

If a retiree divorces, the VRS benefit may be regarded as marital property in a property settlement. The Code of Virginia authorizes VRS to make direct payment to a former spouse if the court awards the spouse part of the VRS benefit. It is important to remember that the law does not require a court to divide VRS benefits. The law simply authorizes VRS to make direct payment if the court divides the benefit. The court, not VRS, makes the decision whether to divide the retirement benefit and how it is to be divided.

VRS carries out the court decision only if it receives a certified copy of an *Approved Domestic Relations Order* (ADRO) and only if the order does not require VRS to make a distribution contrary to the Code of Virginia provisions regarding payment of benefits or distributions from a member's account. Once VRS has approved the court-ordered ADRO, the distribution is stopped only with a court-ordered nullification of the current ADRO.

ADROs must conform to VRS requirements.

The language of the ADRO must conform to VRS requirements. The member's attorney should provide VRS with a draft of the order before filing it with the court to ensure that the language is acceptable to VRS. More information about ADROs can be found in Chapter 8 "Service Retirement" of this manual and in the "Approved Domestic Relations Orders Guide" available on the VRS Web site.

In addition to ADROs, the Code of Virginia allows VRS benefits to be attached in certain instances.[1] Those instances are:

- IRS tax levies (A retiree who is subject to IRS tax levies is notified by the IRS and VRS regarding the amount and duration of the attachment.)
- Debt to a member's VRS employer
- Child support payments
- Marital property as stated in an ADRO

VRS must approve the ADRO whether the retiree was a VRS member or an *Optional Retirement Plan* (ORP) participant.

[1] See Code of Virginia § 51.1-124.4.

CHANGING RETIREMENT OPTIONS

Options may be changed only in certain circumstances.

In certain situations, a member may change the Survivor Option. A member who retires under the Survivor Option may name a new contingent annuitant or revert to the Basic Benefit if:

- The original contingent annuitant dies;
- The VRS *Board of Trustees* receives written consent from the original contingent annuitant relinquishing any claim to benefits and provides proof of good health;
- The marriage lasted **less than 20 years** and the final divorce decree from the original contingent annuitant is issued; or
- The marriage lasted **20 or more years**, the final divorce decree from the original contingent annuitant is issued and the former spouse dies, remarries, or consents.

Note: If there is an Approved Domestic Relations Order (ADRO) on file with VRS, benefits must be paid as directed by the ADRO, regardless of how long the marriage lasted.

If a retiree reverts to the Basic Benefit or names a new contingent annuitant and has the benefit recalculated, no changes to the payout option can be made in the future. **This is a one-time change**.

Naming a new contingent annuitant may result in a decrease or increase in the benefit depending on the age of the new contingent annuitant. If naming a new contingent annuitant results in a decrease in the monthly benefit, the change becomes effective the first of the month following the month VRS processes the change.

To initiate a change in the Survivor Option, the retiree must submit a Request for Estimate of Retirement Benefit Payout Option Change (VRS-5B) to VRS. Once this request is received, a new estimate of retirement benefits is calculated based on the changes requested. VRS mails the estimate with an Authorization to Change Retirement Benefit Payout Option (VRS-5C) to the retiree. The VRS-5C must be returned to VRS before the change can take effect. Appendix 8-B describes documentation VRS requires if circumstances require a change to the Survivor Option.

Note: A member may not make a change to the retirement benefit if the Advance Pension Option was chosen or if the member elected the PLOP with the Basic Benefit at retirement.

If the request to change is due to the original contingent annuitant's death, the change is effective on the date of death. If 60 days have passed since the date of death, the effective date is retroactive to 60 days from the date the form is received.

If the request to change is due to divorce, the change is effective on the date of the final divorce decree. If 60 days have passed since the date of the final divorce decree, the effective date is retroactive to 60 days from the date the form is received.

If the change of annuitant occurs because the original contingent annuitant relinquishes rights to the survivor benefit, the change is effective the date VRS is first notified of the member's intention to change annuitants. Initial notification may be made by telephone or letter; however, the member must complete an Authorization to Change Retirement Benefit Payout Option (VRS-5C) to officially authorize the change. If the member does not submit the authorization form until 60 days after the first notification, the effective date is retroactive to 60 days from the date the form is received.

Example: A member's survivor relinquishes rights to the survivor benefit. The member calls VRS on August 8 to express intent to change the survivor. The VRS-5C is sent to the member on August 9; however, it is not signed and submitted to VRS until December 15. The date of notification can only be backdated 60 days from December 15. If the member had submitted the form within 60 days of the August 8 notification, the effective date would have been August 8.

HEALTH INSURANCE CREDIT PROGRAM

Sections 51.1-1400—1404 of the Code of Virginia govern the health insurance credit program. The program is a benefit designed to assist retirees with the cost of health insurance coverage. The amount of the health insurance credit is a dollar amount set by the General Assembly for each year of creditable service at retirement.

The type of agency for which the retiree worked determines the amount of credit provided. The rate differs for state, school division, *political subdivision,* local officer, local social services department and general registrar retirees. Political subdivisions have the ability to elect to increase the credit for certain eligible employees. If the political subdivision elects the *enhanced health insurance credit*, certain eligible employees are provided an additional monthly credit. The political subdivision pays the cost of the additional credit.

The credit applies only to the retiree's portion of the premium, and cannot exceed the maximum amount established by the General Assembly or the actual premium paid. The credit terminates upon the cancellation of a health insurance plan for which the retiree was paying a monthly premium, the retiree's death or return to work. For the credit to maintain its non-taxable status, payments must be paid as a reimbursement.

Eligibility

To receive the health insurance credit, a retiree must meet the following eligibility criteria:

1. The retiree must belong to one of these groups:
    a) Retired teacher, administrator or clerical staff member of a public school board, including superintendents who participate in the Optional Retirement Plan for School Superintendents (ORPSS);
    b) Retired local officer, a retired employee of a local social services department, retired general registrar or retired employee of a general registrar; or
    c) Retiree from a state agency, including ORP participants, or a political subdivision participating in the Health Insurance Credit program.
2. The retiree must be enrolled and paying a premium for an individual, coverage under a spouse's plan or employer-sponsored health insurance plan, Medicare Part B, Medicare Part D, dental or vision coverage; and
3. The retiree must have accumulated 15 or more years of total VRS creditable service or covered service under an ORP or a combination thereof, or be retiring under disability and the employer participates in the Health Insurance Credit program.

A person who chooses to defer retirement is eligible for the health insurance credit at retirement, provided health insurance credit eligibility requirements in effect at the time of retirement are met. ORP covered retirees are eligible for the health insurance credit only if they are taking a periodic distribution from the plan or have purchased a life time annuity within the Plan.

Disability retirees are also eligible for the credit and receive the credit regardless of length of service, provided the retiree's last employer participates in the Health Insurance Credit program.

Retirees covered as dependents under an active state employee's health insurance coverage are eligible to apply for the health insurance credit by completing a Request for Health Insurance Credit (VRS-45). Reimbursement applies only to the retiree's portion of the premium.

Retired State Employees

A state employee who retires may be eligible for the health insurance credit. A state employee is defined as any person employed full-time on a salaried basis and whose position is not considered a temporary or provisional appointment.[2] A state employee's salary is funded at least in part by the Commonwealth of Virginia and is paid no more often than biweekly. The Governor, Lieutenant Governor, Attorney General and members of the General Assembly are considered state employees as well.

Retirees covered as dependents under an active state employee's health insurance coverage and who meet the eligibility requirements can apply for the health insurance credit by completing a Request for Health Insurance Credit (VRS-45). Reimbursement applies only to the retiree's portion of the premium.

Retired Teachers

A teacher who retires may be eligible for the health insurance credit. A teacher is defined as any person who is regularly employed full-time on a

[2] See Code of Virginia § 51.1-124.3.

salaried basis as a professional or clerical employee of a county, city or other local school board.[3]

Retired employees of the local school division may also be eligible for the health insurance credit, provided the school division's governing body elects the program. **Note:** School superintendents who participate in the Optional Retirement Plan for School Superintendents or an alternative defined contribution plan receive the health insurance credit in accordance with the guidelines established for determining the credit for retired teachers.

Retired Local Officers, Retired Local Social Services Employees, and Retired General Registrars

A local officer who retires may be eligible for the health insurance credit. Local officers include Treasurers, Commissioners of the Revenue, Commonwealth Attorneys, Circuit Court Clerks, Sheriffs and employees of any of these individuals to include Sheriff's deputies.[4]

Retired employees of local social services boards, retired general registrars and retired employees of general registrars may also be eligible for the health insurance credit. If a retiree has 15 years of creditable service and retires in the position of local officer, social services employee, general registrar or employee of a general registrar, the retiree is eligible for the health insurance credit.

An individual who retires from a local government that has not elected to provide the health insurance credit and has at least 15 years of service as either a local officer, local social services board employee, state employee or a teacher, but not a combination of these service categories, is eligible for the health insurance credit. If the employee has a combination of general registrar and/or employee of general registrar service that totals 15 years in his or her record, the employee is also eligible for the health insurance credit. An employee who has a combination of service that provides eligibility for the health insurance credit under two or more of the qualifying categories, receives the health insurance credit based on the category of

[3] See Code of Virginia § 51.1-124.3.
[4] See Code of Virginia § 51.1-124.3(A).

service that provides the greater benefit and the amount is determined using total service.

Retired Political Subdivision Employees

Political subdivisions may elect to join the health insurance credit program.

Other political subdivision employees may also be eligible to receive a health insurance credit if their governing body elects to participate in the program. Employers who choose to provide the health insurance credit to employees not qualifying as local officers or local social services board employees must send a resolution to VRS authorizing participation in the health insurance credit program. An election to participate is **irrevocable**.

A person who retires from a political subdivision that has not elected to provide the health insurance credit and has at least 15 years of service credit as either a state employee or a teacher, but not a combination of both, is eligible for the health insurance credit.

Retired Optional and Alternative Retirement Plan Participants

An employee who participates in an Optional Retirement Plan (ORP) or an Alternative Retirement Plan (ARP) may also qualify for the health insurance credit. An ORP or ARP participant who meets the following requirements qualifies for the health insurance credit:

ORP participants with 15 years of service are eligible for the health insurance credit.

- Has a minimum of 15 years of coverage under the ORP/ARP or a combination of VRS service credit and ORP/ARP service* that equals 15 years, and
- Has the agency benefit administrator complete the ORP/ARP Health Insurance Credit Employer Certification of Service (VRS-75) to certify ORP/ARP service eligibility for the credit. This form is completed and submitted to VRS by the employer when the employee applies for retirement and elects a periodic payment from the defined contribution plan. State ORP/ARP employees who are receiving long-term disability benefits under an employer-sponsored disability plan are eligible to receive the maximum credit regardless of service.

  * If the ORP/ARP employee has creditable service years with VRS, then VRS will calculate those years and add the service years to the employee's record. This counts towards the employee satisfying the service requirement for health insurance credit eligibility.

Note: VRS does not have data to determine eligibility for this group of retirees; therefore, the health insurance credit cannot be paid to the retiree until the employer has completed the VRS-75 and submitted it to VRS.

Retired General Assembly Members

A General Assembly member may elect to participate in or continue to participate in the active state health insurance plan. However, if the General Assembly member participates in the active state health insurance plan, the state retiree health insurance credit is not payable. A General Assembly retiree who is otherwise eligible for a health insurance credit for service other than state and who chooses to participate in the state active health insurance plan is eligible for the health insurance credit. A member who elects to participate under a spouse's health insurance plan, covered by an individual health insurance plan or Medicare Part B or Medicare Part D and paying a monthly premium is also eligible for the health insurance credit. Reimbursement applies only to the retiree's portion of the premium.

Upon retirement from the General Assembly, the member is eligible to enroll in the State Retiree's Health Benefits Program provided enrollment occurs within 31 days of retirement on an immediate annuity. A retiring member who has 15 or more years of service credit and who participates in a qualified health insurance plan(s) and is paying a monthly premium for coverage is eligible for the state health insurance credit upon retirement from the General Assembly. If the member is eligible for the health insurance credit based upon retirement from a school division or political subdivision, the employee is eligible for the applicable health insurance credit commencing with the first month of retirement from the General Assembly, provided the member is enrolled in a qualified health insurance plan(s) and paying a monthly premium. Only one employer will pay the health insurance credit and generally the member's last employer determines eligibility for the credit.

Enrollment

The retiree enrolls in the program by completing a Request for Health Insurance Credit (VRS-45). This form does **not** need to be completed if the retiree is enrolled in the State Retiree Health Benefits Program or participating in an employer-sponsored plan for which VRS is deducting health insurance premiums. However, if the retiree has health insurance coverage other than the coverage for which VRS is deducting premiums, the retiree must certify continuing eligibility annually by submitting a completed VRS-45 with updated policy information including the effective date of coverage and premium amount(s).

VRS should be notified immediately of premium changes.

The retiree should notify VRS immediately of policy cancellations or premium changes. VRS requires the retiree to provide written proof of the new health insurance premium amount and the effective date of the change to the premium. The retiree may report these changes to VRS by completing a VRS-45. If failure to notify VRS of cancellation or changes in the amount of the health insurance premiums cause an overpayment of health insurance credits the retiree is responsible for repaying VRS. There also may be federal and state tax consequences if a retiree receives reimbursements that exceed the cost of the retiree health premiums.

Once a retiree begins to receive the health insurance credit, the credit continues to be received until the retiree notifies VRS otherwise. A retiree is not required to submit proof of payment of insurance premiums each month to be reimbursed. As long as VRS processed a reimbursement within the past year, the health insurance credit is automatically processed.

Amount of the Health Insurance Credit

To determine the health insurance credit amount, round the total creditable service up to the next full year and multiply by the dollar value in Figure 10-1. For example, if a member has 15 years and 1 month of service, the service rounds up to 16 years. However, a member must have 15 full years of service to be eligible. A member with 14 years and 11 months of service **cannot** round up to 15 years to meet eligibility requirements.

Figure 10-1 Health Insurance Credit Rates

Employer Type	Amount per Year of Service	Maximum Credit per Month (Based on 30 years of service)
State*	$4.00	no cap
Teacher**	$4.00	no cap
Political Subdivision	$1.50	$45.00
Local Social Services Employees	$1.50	$45.00
(if political subdivision elects enhanced credit)	$2.50	$75.00
General Registrars/Employees of General Registrars	$1.50	$45.00
(if political subdivision elects enhanced credit)	$2.50	$75.00
Local Officers	$1.50	$45.00
(if political subdivision elects enhanced credit)	$2.50	$75.00

* Includes retirees from a state Optional Retirement Plan or Alternative Retirement Plan.

** Includes all other employees of the local school division if the governing body elects the program.

Amount of the Health Insurance Credit for Disability Retirees

Members who retire under VRS disability are not required to fulfill the minimum 15-year service requirement for health insurance credit eligibility. Use the following chart to determine the amount of health insurance credit for the referenced category of employees who retire under disability:

Employer Type	Credit
State	The greater of: • $120 or • $4 a year for each year of creditable service at the time of disability retirement
Teachers*	$4 multiplied by the smaller of: • Twice the amount of creditable service at the time of disability retirement or • The amount of creditable service the member would have at age 60, if the member had remained in service.
Local officers, local social services employees, general registrars and employees of general registrars	Maximum monthly health insurance credit of $45** **Note:** If the employee does not retire from one of the positions in this category of employees, or if the employee retires from an employer that does not provide the health insurance credit, he or she must have 15 or more years prior service as a local officer, local social services employee, general registrar and/or employee of general registrar.
Political subdivision	Maximum monthly health insurance credit of $45 **Note:** The employee must retire from an employer who participates in the health insurance credit program in order to be eligible for the credit.

* Includes all other employees of the local school division if the governing body elects the program.

** This category of employees may also receive an additional $1 per month credit, if the employer has elected the enhanced credit.

Amount of the Health Insurance Credit for Long-Term Disability Participants

State Optional Retirement Plan (ORP), Alternative Retirement Plan (ARP) and ORPSS participants who receive long-term disability benefits under an employer-sponsored disability plan and Virginia Sickness and Disability Program (VSDP) participants who receive long-term disability are eligible for a monthly health insurance credit.

The credit for the OPR and ARP participant is equal to the greater of $120 or $4 per year for each year of creditable service at the time of eligibility for long-term disability. The credit for the ORPSS participant is equal to $4 multiplied by the smaller of twice the amount of creditable service at the time of disability retirement, or the amount of creditable service the member would have at age 60, if the member had remained in service.

The VSDP service provider, UNUM, includes the health insurance credit in the long-term disability recipient's monthly benefit payment. VRS sends a health insurance credit check to the eligible state ORP/ARP long-term disability recipient.

Payment of the Health Insurance Credit

When an eligible retiree has health insurance premiums deducted from the VRS monthly benefit payment, the health insurance credit reimbursement amount is paid as part of the monthly retirement benefit payment. It is not necessary to submit a Request for Health Insurance Credit (VRS-45) when VRS deducts health insurance premiums from the monthly retirement benefit payment unless the retiree has health insurance coverage other than the coverage for which VRS is deducting premiums. (Refer to the "Enrollment" section of this chapter for instructions.)

ORP/ARP retirees eligible for the health insurance credit receive a monthly check for reimbursement.

When an eligible retiree submits a completed VRS-45 to VRS, the reimbursement process is automatic. Reimbursement is made for one month at a time and the eligible retiree can qualify for retroactive reimbursement up to a maximum 12-month period from the date VRS receives the completed VRS-45 or to the date of eligibility, whichever is applicable.

The health insurance credit reimbursement amount is based on the lesser of the eligible retiree's portion of the premium amount paid, less any subsidy payments provided by sources other than VRS or the health insurance credit amount. Participants who cannot determine their portion of the premium are reimbursed the lesser of: one half of the premium amount paid, less any subsidy payment provided by sources other than VRS or the health credit amount. The credit may be applied to multiple policies, but cannot exceed the maximum credit amount the retiree is eligible to receive.

LIFE INSURANCE

Basic Group Life Insurance

Life insurance reduces 25 percent annually.

A member retains basic group life insurance coverage into retirement at no cost provided eligibility requirements for service retirement are satisfied. Retirees are not required to pay premiums for basic group life insurance. Basic group life insurance coverage begins to reduce in retirement and continues to reduce until it reaches 25 percent of the original value. A retired member remains eligible for the death benefit and accelerated benefit. However, the provision that allows for payment of double the death benefit for an accidental death ceases upon retirement. Dismemberment insurance also ceases upon retirement. Members retiring for disability are not required to meet retirement eligibility to retain group life insurance coverage and the 25 percent annual reduction does not begin until after the disability retiree reaches normal retirement age.

Optional Life Insurance

A service retiree may elect to continue a portion of his or her optional life insurance coverage into retirement. The retiree may also continue coverage for a spouse or dependent children. The retiree, the retiree’s spouse and dependents must have been covered continuously under optional life insurance during the 60 months immediately preceding retirement in order to continue coverage. The amount of life insurance that is continued is limited and will reduce. All optional life insurance ends when the retiree attains age 80, upon the death of the retiree, or upon the non-payment of required premiums, whichever is earliest. In the case of a dependent child, optional coverage ends when the child attains age 21 or age 25 if attending an accredited school or college as a full-time student, or when the child is no longer considered a dependent.

A disability retiree retains the level of pre-retirement optional life insurance coverage in force provided the retiree has not reached normal retirement age. Disability retirees that have not reached normal retirement age do not have to satisfy the requirement for 60 months of continuous coverage in order to continue optional life coverage into retirement. However; disability retirees under normal retirement age may continue a portion of the optional life coverage upon reaching normal retirement age only if they have been continuously covered for 60 months prior to reaching normal retirement age. Disability retirees who have attained normal retirement age at retirement may elect to continue a portion of the optional life coverage, but it will reduce in the same manner as service retirees. Disability retirees can continue full coverage or a portion of coverage for the spouse and dependent children depending on the retiree's age at and during retirement.

As with basic group life, a retired member remains eligible for the death benefit and accelerated benefit. However, the provision that allows for payment of double the death benefit for an accidental death ceases upon retirement. Dismemberment insurance also ceases upon retirement. See Chapter 5 “Group Life Insurance” for details.

Conversion

Both service and disability retirees may elect to convert basic and optional life insurance coverage into an individual whole life policy. Conversion to a whole life policy may be appropriate where the retired member does not meet eligibility to continue basic and/or optional coverage within the group plan. It may also be appropriate for service and disability retirees who are eligible to retain a portion of the optional life coverage upon retirement to convert the coverage to an individual whole life policy, if the retiree wants to maintain the entire amount of the existing coverage. See Chapter 5 “Group Life Insurance” for details.

Beneficiary Designations

Maintain current beneficiary designations.

It is important that retirees maintain current beneficiary designations to ensure that benefits are paid promptly and according to the retiree's wishes. If no valid beneficiary designation is on file with VRS or if the designated beneficiary has died and the retiree has not named another beneficiary, the distribution of any remaining member account contributions and life insurance benefits will be assumed to follow in an order established by law. The order is: to the spouse; if no surviving spouse, to the children and descendants of deceased children; if none, to the parents; if none to the duly appointed executor or administrator of the estate; if none, to the other next of kin.

A retiree should only complete a Designation of Beneficiary (VRS-2) and return it to Minnesota Life when designating a beneficiary other than the order established by law or to revoke a prior designation. Confirmation notices are not sent upon receiving a beneficiary designation form, so it is important for retirees to keep a copy of the form. In addition, the name of a beneficiary cannot be given over the phone. To receive this information, the retiree must send a written request to:

Minnesota Life
P.O. Box 1193
Richmond, VA 23218-1193

Note: The VRS-2 cannot be used to change the contingent annuitant designated at retirement if the member selected the Survivor Option. Please refer to the "Changing Retirement Options" section of this chapter for more information.

LONG-TERM CARE

Long-term care services help employees with the cost of long-term care services, such as nursing home care or at-home care to assist with bathing, eating or other activities of daily living.

VSDP Long-Term Care Plan

Service retirees who were covered under the VSDP Long-Term Care plan have the option of continuing the long term care coverage at group rates. The retiree is responsible for paying the cost of the coverage.

To continue coverage, the retiree must complete the VSDP Long-Term Care Plan Authorization of Coverage Retention (VRS-170) and the VSDP Long-Term Care Plan Protection Against Unintentional Lapse (VRS-171) within 60 calendar days of the last day of VSDP-covered employment.

A retiree who elects to retain coverage is eligible for the same benefits as an active participant.

Voluntary Long-Term Care Program

The Commonwealth of Virginia Voluntary Long Term Care Program allows employees to obtain additional long-term coverage. Eligible employees include:

- Members who work at least 20 hours a week for a state agency, public college or university;
- Members who are employed by a political subdivision or school division that has elected to offer the program;
- Deferred members with at least five years of service credit; or
- Retirees receiving a VRS benefit.

Retirees and deferred members must provide evidence of good health and may enroll in the program at anytime. New employees do not have to provide proof of good health if enrolling in the program within 60 days of hire. Eligible family members between the ages of 18 and 79 may also enroll.

Genworth Life Insurance Company administers the Voluntary Group Long Term Care Insurance Program. Advise your employees to call Genworth Life toll free at 1-866-859-6060 or visit www.genworth.com/cov to learn more about enrolling.

DEFERRED COMPENSATION AND CASH MATCH PLANS

VRS retirees may continue to manage their Deferred Compensation and Cash Match Plans after retirement.

State retirees and retirees of political subdivisions and school divisions participating in the Commonwealth of Virginia Deferred Compensation Plan and Cash Match Plan are generally not required to take a distribution at retirement. Retirees may continue to manage their accounts and withdraw funds at a later date. State employees, political subdivision employees, and teachers participating in the plan who are no longer employed by the employer providing the plan, must begin a minimum distribution from their plan by April 1 of the year following the year the retiree attains age 70½. For more information about available payout options, visit the Plan Web site at www.varetire.org, or call toll free 1-VRS-DCPLAN1 (877/327-5261).

Note: At the time of retirement, members who do not participate in VSDP may defer unused sick leave payments to the 457 Deferred Compensation Plan.

WORKING AFTER RETIREMENT

After retirement, a VRS retiree can work for any employer that does not participate in VRS and continue to receive retirement benefits. If the retiree returns to covered employment with a VRS-participating employer, the retirement benefits (whether VRS or ORP) will cease, and he or she will again become an active member. Covered employment is any full-time permanent position that provides VRS benefits. Some part-time permanent positions with state agencies and public colleges and universities also are covered under VRS. See the "Membership" chapter for the complete guidelines for full and part-time positions.

Note: The exception is ORP participants who have purchased a lifetime annuity. Annuity payments will not stop if the retiree returns to covered employment.

Non-covered employment with VRS-participating employers includes temporary, part-time hourly and adjunct faculty positions. In many cases, the retiree can accept non-covered employment with a VRS-participating employer and continue to receive retirement benefits.

Employers should:

- Have no pre-arranged employment commitment with the retiree;
- Ensure the retiree is not expected to perform all the duties required of his or her pre-retirement, full-time position;
- Evaluate the need for the position periodically if it does not have an end date;
- Structure the position so the hours worked are at least 20 percent less than a full-time position. Position descriptions should clearly define the difference between part-time and full-time positions requiring the same skills, experience and knowledge.
- Ensure that the employee has at least a full calendar month break in service during a normal work period if returning to a non-covered position with the pre-retirement employer. If returning to work in a non-covered position with a different employer, the full calendar month break in service is not required.

Note: If the retiree works for two VRS employers and both positions are non-covered, the retiree's work hours must still be 20 percent less than a full-time position.

The Commonwealth of Virginia, including all state agencies and public colleges and universities, is considered one employer.

Example: The retiree's employer prior to retirement was the Department of Motor Vehicles. The retiree now wants to work in a position with the Department of Corrections in a position not covered under VRS. The retiree must have a full calendar month break in service from the Department of Motor Vehicles before starting part-time hourly work at the Department of Corrections to continue receiving retirement benefits. The part-time hours worked should be 20 percent less than that of a full-time position.

Local school systems, local governments, including cities, counties, towns, commissions, authorities and other political subdivisions are considered separate employers.

Example: The retiree retired from Henrico County Public Schools and wants to work with Hanover County Public Schools in a position not covered under VRS. The retiree is not required to have a full calendar month break in service from Henrico County Public Schools before beginning part-time hourly employment with Hanover County Public Schools to continue receiving retirement benefits.

Local governments, including cities, counties, towns, commissions, authorities and other political subdivisions, are also considered separate employers.

Example: The retiree's last employer prior to retirement was the Town of Abingdon. The retiree now wants to work with Goochland County in a position not covered under VRS. The retiree is not required to have a full calendar month break in service from the Town of Abingdon before beginning part-time hourly employment with Goochland County to continue receiving retirement benefits.

Penalty for Disregarding Break-in-Service Rules

An employer may not hire a retiree in a non-covered position without complying with the provisions that govern the bona fide break-in-service and other return-to-work requirements. In addition, the employer must not hire a retiree in a covered position while the employee continues to receive a retirement benefit. If an employer disregards the break-in-service rules or the rules governing the hours to be worked in a non covered position by a retiree, the retiree's benefit will be adjusted going forward and VRS may collect the overpayments from the employer.

Federal Government Requirements

VRS is a qualified pension plan as defined by the IRS. The IRS requires a severance of employment for a member to be eligible to receive a plan distribution. To ensure there has been a severance in employment, VRS requires that a member have a least a full calendar month break in service during a normal work period before returning to non-covered employment with his or her pre-retirement employer.

Non-covered employment includes temporary, part-time hourly and adjunct faculty positions that do not provide VRS benefits.

The break-in-service requirement does not apply if the member returns to non-covered employment with a different VRS-participating employer or any employer who does not participate in plans administered by VRS. This full calendar month break must be over a period the retiree would normally work.

Teachers and faculty on contracts returning to work with the same employer, who normally do not work during the summer months, cannot count the summer months as the break in service period. Summer school employment and substitute teaching are also considered working and cannot count towards the full calendar month break in service period. The break in service period must begin with the start of the school or academic year. The retiree must not work for a full calendar month from the end of the contract, excluding the summer break.

Example: Contract period: August 25, 2008 – June 14, 2009 - The end date of this contract is June 14, 2009. Therefore, this retiree may return to the same employer in a non-covered or part-time position no earlier than October 1, 2009.

Example: Contract period: August 25, 2008-June 20-2009 - The end date of this contract is June 20, 2009. Therefore, this retiree may return to the same employer in a non-covered or part-time position no earlier than October 1, 2009.

A retired teacher who selected an *early retirement incentive program (ERIP)* that requires the retiree to work a certain number of days during the upcoming contract year in a non-covered, part-time teaching position, will continue to receive VRS retirement benefits as long as the retiree has a bona fide break of at least a full calendar month.

Critical Teaching Shortage

VRS-covered retirees may continue to receive retirement benefits if working full-time as a teacher, principal or assistant principal in a *critical shortage area*. Critical shortage positions are considered temporary and your agency should recruit yearly to fill the position prior to hiring or re-hiring a retiree in a critical shortage position.

To be eligible for a critical shortage position, the retiree must:

- Be fully licensed for the assignment.
- Teach or serve as a principal or assistant principal in a designated critical shortage area, as identified annually by the Department of Education (DOE);
- Have a bona fide break in service of at least 12 months following the effective date of retirement and not worked in any capacity for a VRS-participating employer, even on a part-time basis during that period;
- Have not retired under a local school system's early retirement incentive program (ERIP), unless the member is receiving an unreduced VRS retirement benefit. (Any period of work performed by the retiree to satisfy the requirements of an ERIP will extend the number of months required to satisfy the bona fide break in service to comply with this program.); and
- Have not taken a refund of the retirement contributions and interest credited to his or her VRS account nor deferred retirement.

The Department of Education designates critical shortage areas; however, school division superintendents and school boards may also designate a critical shortage position if there are three or fewer qualified applicants. Visit DOE's Web site at www.doe.virginia.gov/VDOE/newvdoe/teached.html to determine if a position is designated as critical shortage.

A retiree employed in critical shortage positions must complete a Certification of Eligibility for Critical Shortage Teachers or Administrators (VRS-160) at the time of employment and by November 1 of each year as long as the retiree continues to be employed in a critical shortage position. The employer must certify the form and send it to VRS.

The school division must complete a Certification of Non-Participation of Critical Shortage Teachers and Administrators (VRS-160A) by November 1 if no VRS retirees are employed in critical shortage positions.

Note: These Code provisions expire July 1, 2020.

Special Considerations

Re-employment may also affect the retiree's life insurance coverage. See Chapter 5 “Group Life Insurance” of this manual for more information.

Social Security rules govern the maximum amount a person may earn and remain eligible for Social Security benefits. Advise retirees who receive Social Security benefits to consult the local Social Security office concerning re-employment.

Returning to Covered Employment

Covered employment is any full-time permanent position that provides VRS benefits. Some part-time permanent positions with state agencies and public colleges and universities are also covered under VRS.

If a retiree returns to VRS-covered employment, benefits cease and the retiree becomes an active member again.

To avoid overpayment of retirement benefits, you and the member must submit a Request for Termination of Monthly Benefit (VRS-7) to VRS immediately upon the member’s re-employment in the covered position. Optional Retirement Plan (ORP) retirees must submit a Notice of Return to Covered Employment for ORP Retirees (VRS-7ORP) when the retiree returns to work in a position covered under VRS, including an ORP or an Alternate Retirement Plan. The ORP retiree is required to stop distributions from the ORP (other than from an annuity).

When the retiree leaves covered employment, monthly VRS benefits resume after being recalculated to include the additional service and salary, it the salary is higher than it was previously. The retiree must select the same payout option that was chosen at the first retirement. Any COLA the retiree earned prior to returning to covered employment is lost.

457 Plan and Cash Match Plan Participants

457 and Cash Match Plan participants who return to salaried or wage employment with an employer who offers the Commonwealth's 457 Plan are allowed to continue Plan distributions started during the period they were not employed. Participants may not initiate a distribution once they return to employment, unless they have reached age 70 ½ and qualify for an in-service distribution. Retirees returning to employment may resume contributions to the 457 Plan, but are not eligible for the Cash Match Plan unless they return to salaried employment.

General Assembly Members

Retirees receiving a retirement benefit based on non-General Assembly service may serve in an elected position in the General Assembly and continue to receive a retirement allowance. When the retiree ceases to be a member of the General Assembly, the benefit will be recalculated to include the General Assembly service.

The General Assembly member is eligible to participate in the State Retiree Health Benefits Program at retirement if he or she submits a State Health benefits program Enrollment Form for Retirees, Survivors and LTD Participants (DHRM form T20530) and takes an immediate annuity.

DEATH IN RETIREMENT

If a retiree chose the Survivor Option at retirement, the designated survivor (or contingent annuitant) receives a monthly benefit for life upon the retiree's death. The amount of the benefit depends on the percentage the retiree selected, the retiree's age at retirement, and the contingent annuitant's age and relationship to the retiree. If a retiree does not select the survivor option and the retiree dies before receiving benefits equal to the balance of member retirement contributions and interest in his or her account, the designated beneficiary receives the remainder of the funds.

Note: If a member dies after a service or disability retirement application is received by VRS but before the effective date of retirement and the member has selected the Survivor Option naming the spouse, minor child or parent as the contingent annuitant, the beneficiary is eligible for either the death-in-service benefit or the Survivor Option, whichever is greater. If the member did not select a survivor option, the member's death is processed as a death-in-service.

In addition, if a member who selected a Partial Lump-Sum Option Payment (PLOP) with the intent to roll over the payment dies after submitting the retirement application, but before the benefit is paid, the beneficiary may roll those funds on the member's behalf.

It is important for the designated beneficiary to notify Minnesota Life immediately of a retiree's death. This prevents an overpayment of retirement benefits. Minnesota Life can be contacted at:

Minnesota Life
Richmond Branch Office
P.O. Box 1193
Richmond, VA 23218-1193
1/800/441-2258

Minnesota Life begins processing the insurance claim and notifies VRS. The designated beneficiary must provide Minnesota Life with the retiree's full name, Social Security number, date of death, and a mailing address for the claim forms.

If the designated beneficiary is entitled to a monthly survivor benefit from VRS, benefit payments begin the month following the month the retiree received his or her last retirement payment. Even though placement on the VRS retirement payroll may take up to two months, the designated beneficiary will be paid retroactively for all benefits.

Death claims from the defined contribution plans administered or authorized by VRS are filed directly with the record keepers for the plans.