

DEATH-IN-SERVICE BENEFITS

EMPLOYER MANUAL

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DEATH-IN-SERVICE BENEFITS

EMPLOYER
MANUAL

If an employee dies while actively employed in a VRS-covered position, death-in-service benefits are available to the employee's beneficiary.¹ In addition to death-in-service benefits, basic group life insurance benefits are payable to the beneficiary of the employee's life insurance policy if the employer participates in the VRS Group Life Insurance Program. Optional life insurance benefits are also payable if the employee purchased optional coverage. The beneficiary of the employee's life insurance benefits may or may not be the same person as the beneficiary of the employee's retirement benefits.

BENEFICIARY DESIGNATION

An employee is not required to designate a beneficiary. If no designation has been made, death-in-service benefits are paid by law to the person surviving at the death of the member in the following order of precedence:²

- To the current spouse;
- If no surviving spouse, to the children and descendants of deceased children;
- If none of the above, to the parents equally or to the surviving parent;
- If none of the above, to the duly appointed executor or administrator of the estate;
- If none of the above, to other next of kin entitled under the law of the state in which the member resides at the time of death.

In the order of precedence, "children" means natural born or adopted children. To designate a stepchild as a beneficiary, the employee must complete a Designation of Beneficiary (VRS-2).

An employee who does not want retirement defined benefits paid out under the order of precedence must complete a VRS-2. A Hybrid Retirement Plan member must also complete a separate Designation of Beneficiary Form to designate a beneficiary for funds

¹ The singular term beneficiary is used throughout this chapter; however, more than one person may receive benefits.

from the defined contribution component. This designation applies until the employee names a new beneficiary or reverts to the order of precedence by submitting a new form. If an employee has more than one form on file, the one with the most recent date is used.

If an employee has designated a primary beneficiary, but the primary beneficiary dies before the employee, the member contribution account (MCA) is paid to the contingent beneficiary. The contingent beneficiary is the individual or entity named to receive the benefit if the primary beneficiary is not living. If the employee has not named a contingent beneficiary, or if all named primary and contingent beneficiaries have predeceased the employee, benefits are paid according to the order of precedence.

DIVORCED BENEFICIARIES

An employee divorced before July 1, 1993, whose former spouse is designated as a beneficiary, must file a new VRS-2 to change this beneficiary designation. If the employee's divorce became effective July 1, 1993 or later, and the former spouse is named as the beneficiary, the designation is void unless:

- VRS is presented with legal documentation showing that there is a specific requirement in a divorce decree or Approved Domestic Relations Order (ADRO) entered by a court on or after July 1, 1993 requiring the former spouse be named for these benefits, or
- The member has submitted a new Designation of Beneficiary (VRS-2) after the date of the divorce naming the former spouse as beneficiary.

A former spouse is only eligible to receive a refund of the member contribution account and is not eligible to receive a monthly death-in-service benefit.

All annulment or divorce decrees must contain the following notice in conspicuous, bold print:

Beneficiary designations for any death benefit, as defined in subsection B of §20-111.1 of the Code of Virginia, made payable to a former spouse may or may not be automatically revoked by operation of law upon the entry of a final decree of annulment or divorce. If a party intends to revoke any beneficiary designation made payable to a former spouse following the annulment or divorce, the party is responsible for following any and all instructions to change such beneficiary designation given by the provider of the death benefit. Otherwise, existing beneficiary designations may remain

² Code of Virginia § 51.1-162 establishes an order of precedence for paying retirement benefits when no beneficiary has been designated. See also Code of Virginia § 51.1-511.

in full force and effect after the entry of a final decree of annulment or divorce.

NON WORK-RELATED DEATH

If an active employee dies from a non work-related cause, the beneficiary will be eligible for either a refund of the MCA or a monthly benefit, based on whether the employee was vested at the time of the death.

DEATH OF A NON-VESTED EMPLOYEE

If the employee was not vested, the persons named on the VRS-2 are entitled to their portion of the defined benefit refund. If a VRS-2 is not on file, then the first person qualifying under the order of precedence is entitled to a refund only. A monthly benefit is not available to beneficiaries of a non-vested member.

For Hybrid Retirement Plan members, defined contribution benefits are paid out according to the Designation of Beneficiary Form, if one is on file, or according to the order or precedence.

DEATH OF A VESTED EMPLOYEE

If the employee was vested and the beneficiary is the employee's spouse, minor child, or parent, he may choose either a monthly benefit or a refund to the exclusion of any other named beneficiary. The spouse will take precedence over a minor child, a minor child will take precedence over a parent.

The monthly death-in-service benefit enables the beneficiary to receive a monthly benefit equal to what the vested employee would have received as if:

- retirement had been on the date of death,
- a 100% Survivor Option was selected, and
- the benefit was reduced by any early retirement reduction factor (ERF), if it applied.

If the employee was vested and the beneficiary is someone other than the employee's spouse, minor child or parent, he will receive a refund.

The employer assists the beneficiary with submitting all required paperwork to VRS. If a monthly benefit is selected, the beneficiary is added to the current monthly retirement payroll when all required paperwork is submitted and processed. If a monthly death-in-service benefit is payable from VRS, benefit payments begin the month following the member's date of death. Processing the first payment may take up to two months; however; the contingent annuitant will be paid retroactively for all benefits.

If the beneficiary of a monthly death-in-service benefit dies before receiving monthly benefits equal to the retirement contributions and interest credited to the employee's account, the remaining amount is paid in a lump sum to the beneficiary's estate. If both parents who are receiving a monthly survivor benefit die before the retirement contributions and interest have been paid to them as a monthly benefit, the remaining contributions and interest are payable to the estate of the last living parent.

PAYMENTS TO MINOR CHILDREN

The following conditions apply to a monthly benefit paid to a minor child:

- A minor child must have a guardian or conservator appointed to oversee the estate of the child. If the employee died while vested, the guardian or conservator has the right to choose the type of benefit that is received on behalf of the child.
- A monthly benefit paid to a minor child ceases when the child reaches 18 years of age.
- If more than one child receives a monthly benefit, each child receives an equal share and the benefit is based upon the age of the youngest child and the age of the member at the time of the member's death. When one child reaches age 18, that child's share of the benefit is equally redistributed among the remaining minor children. Monthly benefits cease entirely when all children reach age 18.
- If retirement contributions and interest remain in the member contribution account after all children who were receiving a monthly benefit reach age 18, a refund of the contributions and interest is divided equally among all the children who received a monthly benefit.
- A minor child beneficiary takes precedence over a parent of the employee.
- A minor child beneficiary takes precedence over an adult child beneficiary. If more than one child is designated or qualifies under the order of precedence as the beneficiary of the member's retirement benefits, benefits are payable only to the children who are under 18 years of age.

Example: Susan, Joe, and John are all listed as primary beneficiaries. Susan and Joe are over age 18; John is 12 years old. Because John is the only minor child, he receives the entire retirement benefit.

CALCULATING THE MONTHLY BENEFIT

The formula for calculating the amount of the monthly benefit uses the average final compensation (AFC), years of service credit, and a reduction factor based on the employee's age and the beneficiary's age. The monthly benefit is actuarially reduced using an early retirement reduction factor (ERF) for employees who are not eligible for an unreduced retirement benefit. It is then reduced using a 100% Survivor Factor Option factor.

If a Plan 1 member dies before age 55, he is presumed to be exactly age 55 on the date of death and the beneficiary's age is adjusted using the difference between the employee's age at death and the beneficiary's age. If the employee was age 55 or over, the difference between the employee's age at death and the beneficiary's age at the time of the employee's death determines the survivor option factor which is used to calculate the death-in-service benefit.

If a Plan 2 or Hybrid Retirement Plan member dies before age 60, he is presumed to be exactly age 60 on the date of death and the beneficiary's age is adjusted using the difference between the employee's age at death and the beneficiary's age. If the employee was age 60 or over, the difference between the employee's age at death and the beneficiary's age at the time of the employee's death determines the survivor option factor which is used to calculate the death-in-service benefit.

Adjusting the age upward brings the employee closer to normal retirement age, which results in a higher monthly benefit for the employee's beneficiary.

D E A T H - I N - S E R V I C E B E N E F I T S

Example: A Plan 1 member dies in service at age 37 and his beneficiary is age 44. The employee is assumed to be age 55 on the date of death and the beneficiary is assumed to be age 62. The employee had 10 years of service credit and an AFC of \$46,000 at death.

	Determine the employee's AFC	\$41,000
		\$45,000
Step 1	Plan 1 – divide the sum of the 36 consecutive months of highest salary by 3	<u>+ \$52,000</u>
		\$138,000
	Plan 2/Hybrid - divide the sum of the 60 consecutive months of highest salary by 5	<u>÷ 3</u>
		\$46,000
Step 2	Determine the Benefit Per Year of Service (BPYS) by multiplying the employee's AFC by 0.017	\$46,000 <u>x 0.017</u>
		\$782.00
Step 3	Calculate the annual unreduced benefit by multiplying the BPYS by the number of years of service credit	\$782.00 <u>x 10</u>
		\$7,820.00
Step 4	Determine the monthly benefit by dividing the annual benefit by 12	\$7,820.00 <u>÷ 12</u>
		\$651.67
Step 5	Determine the monthly reduced benefit by multiplying by the ERF	\$651.67 <u>x 0.4600</u>
		\$299.77
Step 6	Calculate the survivor benefit by applying the appropriate survivor factor - if the member was born before July 1, 1945, compare the factors from the long and short charts and apply the higher factor	\$299.77 <u>x 0.791</u>
		\$237.12

TAX IMPLICATIONS

Refunds are subject to 20% mandatory federal tax withholding and a 4% state tax withholding if the beneficiary resides in Virginia. To defer the mandatory withholding, the beneficiary may roll over a refund under certain circumstances. A beneficiary other than the surviving spouse may only do a direct rollover to an inherited IRA. A surviving spouse has the same rollover options that the member would have had. Refer to the IRS 402(f) – Special Tax notice (available on the VRS website under Forms) for rollover rules.

WORK-RELATED DEATH

A work-related cause of death is the result of an occupational illness or injury that occurs on the job and the cause is determined to be compensable under the Virginia Workers' Compensation Act.

If an employee dies from a work-related cause while actively employed, his named beneficiary will be eligible for a refund of any defined benefit funds remaining in the member contribution account. If no beneficiary designation has been made or if the death of the designated beneficiary occurs prior to the death of the employee and another designation has not been made, the retirement contributions and interest in the member contribution account are refunded according to the order of precedence.

If the spouse, natural or legally adopted minor children or a parent are the designated beneficiary, the person will also be eligible for a monthly benefit according to the order of precedence. Work-related death benefits are payable for the life of the beneficiary when the beneficiary is the employee's spouse or parent. The monthly benefit continues even if the surviving spouse remarries. The monthly benefit ceases upon the death of the spouse unless the employee's surviving child has not reached 18 years of age. If the employee's surviving child has not reached 18 at the time of the spouse's death, the monthly retirement benefit is paid until the child reaches 18 years of age.

The employee's spouse, minor child, or parent receives 50% of the employee's AFC if that person does not qualify for Social Security survivor benefits or 33 1/3% of the employee's AFC if that person qualifies for Social Security survivor benefits. If the spouse, minor child, or parent is also entitled to Workers' Compensation benefits, the VRS benefit is reduced by the amount of the Workers' Compensation award. A letter of approval or denial from the Social Security Administration and a copy of the Workers' Compensation award letter are required to process VRS work-related death benefits.

For Hybrid Retirement Plan members, defined contribution benefits are paid out according to the Designation of Beneficiary Form, if one is on file, or according to the order or precedence.

DEATH AFTER A RETIREMENT APPLICATION WAS SUBMITTED

If VRS receives a service or disability application selecting the Basic Benefit, the death is processed as a death-in-service, as long as it is before the effective date of retirement. However, the beneficiary of a non-vested employee is only eligible for a refund.

If the employee 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 employee selected a Partial Lump-Sum Option Payment (PLOP) with the intent to roll over the payment, but dies before the benefit is paid, the beneficiary may roll over those funds on the employee's behalf.

DEATH OF AN EMPLOYEE WHILE ON LEAVE

An employee on leave, with or without pay, is eligible for death-in-service benefits. If the employee dies while on leave with pay, including leave with partial pay, the same death-in-service benefits are available to the beneficiary that are available to beneficiaries of active members.

If an employee dies while on leave without pay (including leave taken under the Family and Medical Leave Act), the death-in-service benefits available to the beneficiary are the same as if the employee died while in an active status. An employee who is on military leave is eligible for death-in-service benefits, even if the leave without pay period exceeds 24 months.

If an employee is on leave without pay when a salary increase would normally be effective and dies before returning to work, the death benefit is paid on the prior salary because the employee had not actually worked under the higher salary.

EMPLOYEE DIES WHILE ON VSDP OR VLDP

If an employee dies while receiving either VSDP or VLDP short-term disability benefits or long-term disability benefits, the beneficiary remains eligible for the same death-in-service benefits that would have been available had the member been actively working.

EDUCATOR DIES WHILE ON SUMMER BREAK

An employee of a school division or institution of higher education who is contracted for less than 12 months remains a VRS-covered employee while on summer break. If a teacher or educator dies during the summer months when not actively at work, the beneficiary remains eligible for the same death-in-service benefits that would have been available had the employee died during the school year while actively at work and under contract.

DEATH OF A MEMBER IN DEFERRED STATUS

A member who terminates VRS-covered employment and leaves the balance of the member contribution account in the system becomes a member in deferred status. A deferred member maintains VRS membership and the beneficiary is eligible for certain death benefits.

If the member dies before the end of the month of termination, the member is considered an active employee and the death-in-service provisions apply. If a deferred member dies more than 30 days after the date of termination and money remains in the member contribution account, the beneficiary receives a refund of the account balance. If the named beneficiary has predeceased the member, a refund of the member contribution account is paid to the member's contingent beneficiary. If no contingent beneficiary has been named or if the contingent beneficiary has also predeceased the member, the refund is paid according to the order of precedence.

HEALTH INSURANCE

Upon the death of an employee of a state agency, an eligible spouse or dependent may obtain coverage in the State Retiree Health Benefits program provided the spouse or dependent was covered at the time of death. If the spouse was not covered at the time of

the death, he may still obtain coverage in the State Retiree Health Benefits program if employee was covered at the time of death and the spouse is receiving a monthly benefit.

Health coverage for the deceased state employee's spouse and dependents may continue in the active group for at least 30 days after the death of the employee. To continue or select health coverage, the spouse or eligible dependent must complete a State Health Benefits Program Enrollment Form For Retirees, Survivors And LTD Participants (T-20879) within 60 days of the employee's death.

ASSISTING THE BENEFICIARY WITH A DEATH CLAIM

When a VRS-covered employee dies while in service with a VRS-participating employer, assist the beneficiary with all aspects of the following claims process.

1. Report the death to Minnesota Life Insurance Company, the insurance carrier for both the VRS basic and optional group life insurance plans. Even if you do not participate in the VRS Group Life Insurance Program, report the death directly to Minnesota Life. This initiates both life insurance and retirement benefits. Contact Minnesota Life at:

Minnesota Life Insurance Company
Richmond Branch Office
P.O. Box 1193
Richmond, VA 23218-1193
1-800-441-2258
Joseph.Chang@securian.com

2. Contact and assist the beneficiary in completing the Beneficiary Statement and Notice of Claim forms. The forms can be obtained directly from Minnesota Life and are available on the Minnesota Life forms link accessible from the VRS website.
3. Instruct the beneficiary to obtain a certified copy of the public death record. For deaths that occur in Virginia, a certified copy of the public death record may be obtained from the Virginia State Office of Vital Records for a fee. Death records are available to immediate family members only.

Virginia Department of Health
Office of Vital Records
P.O. Box 1000
Richmond, VA 23218-1000
804-662-6200

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4. Provide the beneficiary with information regarding the various options for receiving death-in-service retirement benefits. (For example, the beneficiary may be able to choose between a refund of the member's contribution account and a monthly benefit.) VRS has two publications that may be useful for the beneficiary - the "Handbook for Members" and the brochure "Losing a Loved One: Guide for Families." These publications can be printed directly from the VRS website.
5. Advise the beneficiary to contact the Social Security Administration at 1-800-772-1213 to determine if Social Security death benefits are payable. In addition, assist the beneficiary in completing all accident reports and other forms that may be required for the Virginia Workers' Compensation Commission.
6. If the employee was a Hybrid Retirement Plan member or participated in the employer-sponsored, tax-deferred savings plans such as 403(b), 457, or 401(k) plans, instruct the beneficiary to contact the plan record keeper. In the case of state employees and employees of political subdivisions that participate in the Hybrid Retirement Plan, the Virginia Deferred Compensation Plan or the Virginia Cash Match Plan, contact ICMA-RC at:

**ICMA-RC
777 N. Capitol Street NE, Suite 600
Washington, DC 20002
1-877-327-5261 (1-VRS-DC-PLAN1)
Select Option 1**

For other plans, provide the contact information for the plan in which the member participated.

When VRS has been notified by Minnesota Life of the employee's death, an informational letter and claim form are mailed directly to the beneficiary along with information on the beneficiary's payment options. Once the beneficiary has selected the payment option and mailed the form back to VRS (along with any other required documentation), the beneficiary is eligible to receive the benefits.