

# MEMBERSHIP

# EMPLOYER MANUAL

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## MEMBERSHIP

A circular logo with a dark grey background and a white border. The text "EMPLOYER MANUAL" is written in white, uppercase letters, centered within the circle.

EMPLOYER  
MANUAL

Membership in VRS is a condition of employment for eligible employees of participating employers. Employees and employers make contributions toward the employee's future retirement. If the date of hire is the first business day of the month, membership in VRS begins immediately. If the date of hire is after the first day of the month, membership begins the first of the month following the date of hire.

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### ELIGIBILITY

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Membership in VRS is mandatory for all full-time, salaried employees of the following entities:

- Commonwealth of Virginia (classified, part-time salaried employees of the Commonwealth are also eligible for membership in VRS)
- Instructional, clerical and administrative employees of local Virginia school divisions and
- Any participating Virginia city, county, town with a population of 5,000 or more if a local plan does not provide a retirement plan for its employees that equals or exceeds two-thirds of the service retirement benefit which a VRS retiree would receive at age 65 or older.

The employee's position cannot be temporary, seasonal or provisional in nature. However, part-time salaried employees of agencies of the Commonwealth of Virginia including part-time salaried teaching, research and professional faculty of Virginia institutions of higher education are also eligible for VRS membership.<sup>1</sup>

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<sup>1</sup> Adjunct faculty are not eligible

## M E M B E R S H I P

VRS provides guidelines for employers as to what constitutes an eligible position for retirement purposes. Employers, not VRS, classify positions as full-time or part-time and define the hours applicable to each classification. VRS requires that retirement eligibility be uniformly applied to all employees within a job classification, working the same number of hours. However, some guidelines have been established to aid employers in determining whether an employee is “full-time.” The normal workweek for full-time employment is usually considered to be 40 hours per week. Thirty hours is the suggested minimum number of hours for full-time employment.

- Full-time permanent employees receive fringe benefits such as annual leave, sick leave, life insurance and retirement.
- VRS-participating employers that define full-time or part-time positions must apply the definitions consistently to all employees and maintain documentation regarding their classifications.

Part-time positions typically require 80% or less of the hours of comparable full-time permanent positions. Some full-time positions may be considered non-covered if they are temporary and require 80% or less of the hours per year that would be considered full-time and permanent for that position.

- Part-time employment is generally considered to be no more than 80% of full-time employment; positions requiring less than 30 hours per week; or positions requiring less than 1,500 hours per year.
- Part-time employment can be temporary work that has a definite start and end date and generally lasts less than 12 months, such as interim or acting positions or work that requires specific services for the duration of a project.
- Part-time employees are paid on a wage or hourly basis and do not receive fringe benefits.

The determination of whether an employee is eligible for VRS benefits is separate from whether the employee must be provided health care coverage under the Affordable Care Act.

## EXCEPTIONS TO MANDATORY MEMBERSHIP

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In the following circumstances, there are exceptions to mandatory membership:

- Employees of a political subdivision or school board may elect to join or reject membership at the time their employer first joins VRS, regardless of age. However, employees hired after an employer has joined VRS cannot reject membership. Also, employees who rejected membership and terminate employment, but later return to a covered position with their employer must join VRS.
- Employees of a local retirement system who are promoted to positions which meet the statutory definition of “teacher” may elect to reject VRS membership in favor of the local plan within 60 days of the promotion and with the consent of the employer.
- Employees of a local retirement system who, through election to a position as a constitutional officer, are no longer eligible for membership in the local system but have accumulated more than half of the total service credit necessary for a full normal retirement benefit may reject VRS membership in favor of the local system with the employer’s consent.
- Employees of a college or university who hold faculty positions, including part-time salaried faculty (not adjunct), may elect coverage in an Optional Retirement Plan for Higher Education (ORPHE), if eligible, within 60 days of employment in an eligible position. If no election is made, the employee defaults to VRS membership. Electing to participate in an ORPHE is irrevocable so long as there is no break in service or unless the participant moves to a position not eligible for the VRS administered ORPHE or an optional plan for faculty administered by a university. The Election to Participate - Optional Retirement Plan for Higher Education (VRS-65) is sent to the employee by *myVRS Navigator*. An ORPHE participant with a VRS member contribution account may transfer their VRS contributions to their ORPHE account.
- Certain elected officials and political appointees may elect coverage in the Optional Retirement Plan for Political Appointees (ORPPA), if eligible, within 30 days of being notified by VRS of their eligibility.<sup>2</sup> Electing to participate in the ORPPA is irrevocable unless there is a break in service or the employee moves to a position not eligible for the ORPPA. An ORPPA participant who moves to a VRS-only eligible position with the Commonwealth with no break in service may use the ORPPA account to purchase VRS service credit for the period of time they were covered by the ORPPA. An ORPPA participant with a VRS member contribution account may transfer his VRS contributions to his ORPPA account.
- Newly hired school superintendents in school divisions that have adopted the Optional Retirement Plan for School Superintendents (ORPSS) may elect coverage in that plan. The eligible superintendent must execute the ORPSS election within 30 days of being notified by VRS of their eligibility. Electing to participate in the ORPSS is irrevocable unless the participant moves to another school division, to a position eligible for the ORPHE or ORPPA, or to a VRS-only eligible position. An ORPSS participant with a VRS member contribution account may transfer his VRS contributions to his ORPSS account.

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<sup>2</sup> Political appointees eligible to participate in an ORP include employees designated in subdivision 3, 4, and 20 of *Code of Virginia* § 2.2-2905 and officers and employees appointed by the Attorney General or Lieutenant Governor designated as deputy, counsel, or director.

## MEMBERSHIP

- Certain state employees who are eligible to participate in the Federal Employees Retirement System (FERS) may reject VRS membership.
- Employees of the University of Virginia Medical Center hired on or after July 1, 2003 who are members of VRS may elect coverage in a plan administered by the Medical Center within 60 days of employment. Electing to participate in the Medical Center's plan is irrevocable. Employees are automatically covered by the Medical Center if they do not elect the VRS defined benefit (DB) plan within 60 days of employment.
- Employees of the Virginia Port Authority hired on or after August 1, 1998 participate in the plan administered by the Authority. Employees in the plan are not covered by the VRS group life insurance program or health credit program and do not participate in the Virginia Sickness and Disability Program (VSDP).
- Employees of the Virginia Outdoors Foundation are covered by the plan administered by the Foundation for retirement. Employees are covered by the VRS group life insurance program and health credit program, but do not participate in the VSDP.

In addition, part-time (except those noted previously), temporary or provisional employees, college and university adjunct faculty and independent contractors are ineligible for VRS membership. Employees of a school board, Board of Supervisors and city or town councils are also ineligible for membership.

Teachers in primary and secondary schools who have J1 visas are considered to be in temporary positions. Therefore, persons holding J1 visas while serving in these teaching positions should not be reported to VRS for retirement and group life insurance.

Retired teachers who subsequently return to work in a full-time critical teaching position should not be reported to VRS. See the Post-Retirement Benefits chapter of this manual for more information.

### **FELONY CONVICTIONS**

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If an employee is convicted of a felony on or after July 1, 2011, and if the employer determines that the felony was associated with the performance of his job duties in a VRS-covered position, the employer must report it to VRS using the Employer Request for Forfeiture of Member Benefits (VRS-180). The employee will forfeit his eligibility for all VRS benefits, such as retirement, life insurance, retiree health insurance (for state employees), health insurance credit, VSDP or the Virginia Local Disability Program (VLDP) and long-term care. If the employee is convicted after he begins receiving benefits, the benefits will stop.

These members will be eligible for a full or partial refund of their employee contributions and interest based on vesting requirements for refunds discussed in the Refunds and Distributions chapter of this manual. If the person returns to a covered position at a later date, the service lost as a result of the felony action cannot be purchased.

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## **PLAN PROVISIONS**

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When an employee is hired in a VRS-covered position, he is eligible for benefits based on his plan provisions. The plan provisions are generally based on his hire date.

### **PLAN 1**

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Members are covered under Plan 1 if they have a membership date prior to July 1, 2010 and were vested before January 1, 2013, and have not taken a refund. Members are covered under ORP Plan 1 if they have an ORP membership date before July 1, 2010 and maintain an account balance.

Members who have a pre-July 1, 2010 ORP account balance and move to a defined benefit plan must have any combination of VRS creditable service and/or ORP participation that totals five years as of January 1, 2013 to be considered a Plan 1 member.

### **PLAN 2**

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Members are covered under Plan 2 if they have a membership date from July 1, 2010 to December 31, 2013, and have not taken a refund. Additionally, members are covered under Plan 2 if they have a membership date prior to July 1, 2010 but were not vested before January 1, 2013. Members are covered under ORP Plan 2 if they have an ORP membership date after July 1, 2010 and maintain an account balance.

Members who are covered under VaLORS, SPORS, with enhanced hazardous duty benefits or the hazardous duty alternate option and were hired on or after July 1, 2010, are in Plan 2, even if their membership date is after December 31, 2013.

## **HYBRID RETIREMENT PLAN**

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Members are covered under the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes judges elected or appointed to an original term on or after January 1, 2014, regardless if vested to VRS Plan 1 or Plan 2.

Some members are not eligible to participate in the Hybrid Retirement Plan:

- SPORS members
- VaLORS members
- Political subdivision members who are covered by enhanced benefits for hazardous duty employees and the hazardous duty alternate option

Members hired on or after January 1, 2014 who are eligible for an ORP must elect the ORP or the VRS Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or Plan 2, they are not eligible to elect the hybrid plan and will choose between the ORP and the applicable VRS defined benefit plan.

**Note:** Plan 1 and Plan 2 state, school division and political subdivision employees had the opportunity to make an irrevocable decision to elect the Hybrid Retirement Plan during an election period held January 1 to April 30, 2014. If elected, participation in the hybrid plan began on July 1, 2014.

## **DEFERRED EMPLOYEES**

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An employee who separates from a covered position and does not withdraw defined benefit retirement contributions from the member contribution account is in a deferred status. When the employee leaves employment, you must separate him in *myVRS* Navigator.

If a Plan 1 employee defers retirement (does not take a refund) and later returns to covered employment, he'll be rehired as a Plan 1 employee and covered under the defined benefit plan that is applicable to his covered position (VRS, VaLORS or SPORS).

If a Plan 2 employee defers retirement and later returns to covered employment, he'll be rehired as a Plan 2 employee and covered under the defined benefit plan that is applicable to his covered position.

**Note:** Employees who are appointed to a judicial position (JRS) on or after January 1, 2014 are covered under the Hybrid Retirement Plan.

However, if a Plan 1 or Plan 2 employee leaves covered employment and takes a refund, he will be hired under the Hybrid Retirement Plan if he returns to a non-hazardous duty covered position on or after January 1, 2014.

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## **CONTRIBUTION OVERVIEW**

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Each month, both employee and employer contributions must be submitted based on the employee's creditable compensation and the effective employee and employer rates.

Creditable compensation is an employee's annual salary but does not include:

- Overtime pay
- Temporary shift differential pay
- Accumulated leave pay
- Payments of a temporary nature, including bonuses
- Payments for extra duties not included in the annual salary rate such as supplemental pay to teachers for coaching and advising special activities
- Perquisites not paid in money

For Plan 1 and Plan 2 employees, all contributions are paid to the defined benefit plan. Defined benefit contributions are invested by VRS and are used to fund benefit payments in retirement. For Hybrid Retirement Plan employees, contributions are paid to both the defined benefit and defined contribution (DC) components. Contributions made to the defined contribution component for Hybrid Retirement Plan employees are invested through ICMA-RC in investment options selected by VRS, to provide a retirement benefit based on contributions and the performance of the employee's investment elections.

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## **EMPLOYEE RATE**

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The employee rate is specified in the *Code of Virginia* for each plan – Plan 1, Plan 2 and the Hybrid Retirement Plan.

## **PLAN 1 AND PLAN 2 EMPLOYEE CONTRIBUTIONS**

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Plan 1 and Plan 2 state employees (excluding elected officials, judges) are required to pay employee contributions in the amount of 5% of their creditable compensation each month on a pre-tax salary reduction basis.

**Note:** For contribution rates for Optional Retirement Plans, refer to the appropriate Choosing Your Retirement Plan guide by selecting an Optional Retirement Plan from the Defined Contribution Plans drop down on the VRS website.

Beginning July 1, 2012, employees of school boards and political subdivisions began paying all or part of the 5% employee contribution. Employers have the option to elect to phase in the amount the employee pays at a minimum of 1% in each of the next five years, but must provide an offsetting salary increase in the amount the employee begins paying on July 1. The employee must pay the full 5% employee contribution by July 1, 2016.

**Note:** All employees who are hired or re-employed on or after July 1, 2012 must pay the entire 5% employee contribution with no phase-in option.

Retirement contributions made by the Plan 1 or Plan 2 employee or those paid by the employer on behalf of the employee are placed in the member's contribution account (MCA). Employee contributions accrue interest at a rate of 4% per year, compounded annually on June 30. Interest is earned on balances that have been in the system for at least 12 months. Because the amount of the retirement benefit is based on a formula, the amount of retirement contributions and interest in the member contribution account does not affect the value of the retirement benefit.

## **HYBRID RETIREMENT PLAN EMPLOYEE CONTRIBUTIONS**

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An employee in the Hybrid Retirement Plan makes contributions to both the defined benefit and defined contribution components of the hybrid plan. The employee manages the investment of all contributions to the defined contribution component. The hybrid plan employee must contribute:

- **Mandatory 4% employee (DB):** 4% of an employee's creditable compensation per month goes to the defined benefit component, which is placed in the MCA.
- **Mandatory 1% employee (DC):** In addition, the employee is required to contribute 1% of his creditable compensation to the defined contribution component, which goes to the Hybrid 401(a) Cash Match Plan. (See the Hybrid Retirement Plan Employer Contributions section for employer matching information.)
- **Voluntary employee (DC):** The hybrid plan employee may also voluntarily contribute up to an additional 4%, in 0.5% increments, for a maximum of 5% to the defined contribution component. The employee's voluntary contributions go to the Hybrid 457 Deferred Compensation Plan. Voluntary contributions are not set up automatically for new employees. (See the Hybrid Retirement Plan Employer Contributions section for employer matching information.)

Voluntary contributions elections are made through ICMA-RC and are effective quarterly. An employee has until the 15<sup>th</sup> day of the last month of the quarter (March, June, September, December) to elect voluntary contributions. He can start, stop, increase or decrease his voluntary contributions at any time. However, the most recent change made at the time of the deadline is the one that will be effective for the following quarter.

ICMA-RC will inform VRS of voluntary contribution changes made by the employee. For Commonwealth Integrated Personnel and Payroll System (CIPPS) reporters, this information is provided electronically to CIPPS, which is managed by the Department of Accounts (DOA). For political subdivisions, school divisions and decentralized state employers, the employer will receive a quarterly email reminder to log into EZLink to retrieve the Deferral Changes report. For step-by-step instructions about how to retrieve the report, view the Deferral Changes Report "how to" guide located at [www.varetire.org/hybrid-er](http://www.varetire.org/hybrid-er) under the Admin tab.

An employee who is not contributing the full 4% voluntary contributions to the defined contribution component will have his contribution rate automatically increased by 0.5% on set dates every three years. The first escalation occurs for all Hybrid Retirement Plan participants (regardless of their hire date) on January 1, 2017. A hybrid plan employee may elect not to have his contributions automatically increased, but would have to make the election every three years.

**Example:** A Hybrid Retirement Plan employee is hired on August 1, 2015. He is contributing 2% voluntary contributions to the defined contribution component. On January 1, 2017, his voluntary contributions will be increased to 2.5% unless he opts out of the escalation. The next escalation date would be January 1, 2020.

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## **EMPLOYER CONTRIBUTION RATE**

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The recommended employer contribution rate is calculated by the VRS actuary every two years and is based on the funds needed to pay for the cost of benefits and outstanding liabilities. Separate employer contribution rates are calculated for each defined benefit plan, and each political subdivision has its own unique employer contribution rate.

The actuarially determined amount of the defined benefit funds goes into the employer's retirement allowance account (RAA). The amount in the RAA includes contributions for Plan 1 and Plan 2 employees and for the defined benefit component of Hybrid Retirement Plan employees. These retirement contributions are invested, along with employee contributions, to build a fund sufficient to meet the benefit payments for covered employees as they become eligible to retire.

VRS manages the investment and related risk of all defined benefit contributions (Plan 1, Plan 2 and the defined benefit component of the Hybrid Retirement Plan). The employee manages the investment and related risk of employer contributions to the defined contribution component of the hybrid plan.

## **PLAN 1 AND PLAN 2 EMPLOYER CONTRIBUTIONS**

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The employer pays contributions for Plan 1 and Plan 2 employees based upon the total employer contribution rate noted above and each employee's creditable compensation/contribution basis. For an explanation of these terms, see the Enroll and Maintain Employees chapter of this manual.

## **HYBRID RETIREMENT PLAN EMPLOYER CONTRIBUTIONS**

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Employer contributions for Hybrid Retirement Plan employees include both the defined benefit and defined contribution components. The employers will pay the same contribution rate for all employees (Plan 1, Plan 2 and Hybrid Retirement Plan). However, the contributions for a hybrid employee will be allocated to the defined benefit component based on the employer's mandatory contributions and match on the employee's voluntary contributions to the defined contribution component. All employer contributions to the defined contribution component are directed to Hybrid 401(a) Cash Match Plan.

The employer contributions due for each hybrid employee are:

- **Mandatory 1% employer (DC):** Employers are required to contribute 1% of each hybrid employee's creditable compensation.
- **Employer match on employee voluntary (DC):**
  - **Match on first 1%:** The employer must match the first voluntary contribution completely. If the hybrid plan employee makes a voluntary contribution of 1% to the defined contribution component, the employer must match that 1%. However, if the employee contributes 0.5%, the employer matches the 0.5%. Later, if the employee decides to contribute another 0.5%, the employer must also match that amount.
  - **Match on remaining voluntary employee contributions:** The remaining voluntary employee contributions may also be in increments of 0.5%. For every voluntary 0.5% the hybrid plan employee contributes, the employer must match 0.25%. The employer's maximum contribution for the defined contribution component is 3.5% for an employee who has elected the maximum voluntary contributions of 4%.
- **Defined benefit:** The remaining employer contributions to the defined benefit plan are those that have not been allocated to the defined contribution component. See the section below to calculate this rate.

## **CALCULATING THE EMPLOYER DEFINED BENEFIT CONTRIBUTION RATE FOR HYBRID RETIREMENT PLAN EMPLOYEES**

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Since the total employer contribution rate will remain the same for all employees (Plan 1, Plan 2 and Hybrid), the employer's VRS defined benefit rate is variable for Hybrid Retirement Plan employees. The formula to determine the employer defined benefit contribution rate for each employee in the Hybrid Retirement Plan is:

	total employer contribution rate
<i>minus</i>	the mandatory employer contributions (1% of creditable compensation)
<i>minus</i>	the employer match on employee voluntary contributions (0 to 2.5% of creditable compensation)
<i>equals</i>	the employer defined benefit contribution rate for the employee

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MEMBERSHIP

The table below depicts the relationship and combination of employee and employer contribution rates for the Hybrid Retirement Plan.

Totals		ICMA-RC				VRS	
EE	ER*	DC EE Mandatory Hybrid 401(a) Cash Match Plan	DC ER Mandatory Hybrid 401(a) Cash Match Plan	DC EE Voluntary Hybrid 457 Deferred Comp. Plan	DC ER Match on EE Voluntary Hybrid 401(a) Cash Match Plan	DB EE	DB ER
5.00%	xx.xx%	1.00%	1.00%	0.00%	0.00%	4.00%	=B-D-F
5.50%	xx.xx%	1.00%	1.00%	0.50%	0.50%	4.00%	=B-D-F
6.00%	xx.xx%	1.00%	1.00%	1.00%	1.00%	4.00%	=B-D-F
6.50%	xx.xx%	1.00%	1.00%	1.50%	1.25%	4.00%	=B-D-F
7.00%	xx.xx%	1.00%	1.00%	2.00%	1.50%	4.00%	=B-D-F
7.50%	xx.xx%	1.00%	1.00%	2.50%	1.75%	4.00%	=B-D-F
8.00%	xx.xx%	1.00%	1.00%	3.00%	2.00%	4.00%	=B-D-F
8.50%	xx.xx%	1.00%	1.00%	3.50%	2.25%	4.00%	=B-D-F
9.00%	xx.xx%	1.00%	1.00%	4.00%	2.50%	4.00%	=B-D-F

\* xx.xx% Total employer contribution rate

**Example:** Alan is a Hybrid Retirement Plan employee and chooses to make 3% voluntary contributions to the defined contribution component, for a total of 8% employee contributions. His employer has a total employer contribution rate of 8.76%.

	Employee Percentage	Employer Percentage
<b>Mandatory DC</b>	1.00%	1.00%
<b>Voluntary DC and Match</b>	3.00%	2.00%
<b>DB</b>	4.00%	5.76%
<b>Totals</b>	8.00%	8.76%

The employer is responsible for calculating the employer match for the voluntary contributions in their payroll system to ensure that the contributions are remitted each time contributions are withheld from payroll. The expected employer match is calculated in each snapshot generated in *myVRS Navigator*. EZLink will not calculate the employer match.

## **TAXABILITY OF THE CONTRIBUTIONS**

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The following chart shows the federal, state, FICA and Medicare tax applicable to the various components:

	<b>Applicable IRS Code Section – Employee Deferral</b>	<b>Federal &amp; State Income<sup>1</sup> Tax Taxable</b>	<b>FICA and Medicare Taxable</b>	<b>W-2 Reportable<sup>2</sup></b>
<b>Defined Benefit (Plan 1, Plan 2 and Hybrid Retirement Plan Component):</b>				
<b>Employee:</b>	414(h)	No	Yes	Optional Box 14 <sup>2</sup>
<b>Employer:</b>	N/A	No	No	No
<b>Defined Contribution Component (Hybrid Retirement Plan Component):</b>				
<b>Employee:</b>				
Mandatory Contributions Hybrid 401(a) Cash Match Plan	414(h)	No	Yes	Optional Box 14 <sup>3</sup>
Voluntary Contributions Hybrid 457 Deferred Compensation Plan	457(b)	No	Yes	Box 12 Code G <sup>4</sup>
<b>Employer:</b>				
Match on Mandatory Contributions Hybrid 401(a) Cash Match Plan	N/A	No	No	No
Match on Employee Voluntary Contributions Hybrid 401(a) Cash Match Plan	N/A	No	No	No

<sup>1</sup>For employees who are residents of Pennsylvania and New Jersey, employee voluntary contributions are taxable at the state level. State taxes are paid at the time of contribution instead of disbursement.

<sup>2</sup>Please see the IRS issued “Instructions for Forms W-2 and W-3” for additional information.

<sup>3</sup>The IRS does not require the reporting of these contributions, therefore most employers, including the Commonwealth of Virginia, do not include these employee-paid contributions on the W-2.

<sup>4</sup>Hybrid voluntary contributions must be aggregated with all other 457 deferrals made by the employee and are subject to the maximum deferral limits set annual by the IRS. The total of all 457 deferrals must be reported on the employee’s W-2 in box 12, code G.

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## VESTING

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In order for an employee to be eligible for the retirement plan's benefits, he must earn a minimum amount of creditable service.

### PLAN 1 AND PLAN 2 VESTING

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Vesting occurs when an employee has at least five years of creditable service. If vested, an employee is eligible to receive a monthly retirement benefit once he reaches age and service requirements.

### HYBRID RETIREMENT PLAN VESTING

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A hybrid plan employee becomes vested in the defined benefit component after accumulating five years of creditable service. If vested to the defined benefit component, a hybrid plan employee is eligible to receive a monthly retirement benefit once he reaches age and service requirements.

The defined contribution component of the Hybrid Retirement Plan has a separate vesting schedule from the defined benefit component. Vesting is the minimum length of service an employee needs to be eligible to withdraw employer contributions from the defined contribution component when he separates employment. Upon retirement or leaving covered employment, the employee may be eligible to withdraw a percentage of employer contributions. The amount of employer contributions the employee can withdraw is based upon the years of participation in the plan:

<b>Vesting Requirements for the Hybrid Retirement Plan</b>	
<b>Defined Benefit Component</b>	<b>Defined Contribution Component</b>
5 years creditable service	4 years creditable service*
	1 year – 0%
	2 years – 50%
	3 years – 75%
	4 years – 100%

\* Applies to employer contributions only

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## **FORFEITURE**

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If a Plan 1 or Plan 2 employee is not vested, any employer-paid member contributions made after July 1, 2010 will be forfeited back to the employer who made the contributions. See the Refunds and Distributions chapter for complete information about the money that an employee is eligible to receive if he terminates employment and chooses to take a refund and/or distribution.

When a Hybrid Retirement Plan employee who is not 100% vested in the employer contributions of the defined contribution component separates, his non-vested money is forfeited back to his employer at the earlier of:

- the employee requests a distribution from the Hybrid 401(a) Cash Match Plan;
- the employee requests a refund of his MCA under the defined benefit component of the Hybrid Retirement Plan; or
- the employee's death.

When a forfeiture occurs for non-vested defined contribution funds, the employee's last employer will receive the forfeited employer contributions. If an employee requests a distribution of the Hybrid 457 Deferred Compensation Plan, no forfeiture occurs since the plan only includes employee funds.

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## **BORROWING**

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An employee may not borrow from the defined benefit plan, the Hybrid 457 Deferred Compensation Plan or the Hybrid 401(a) Cash Match Plan. Only through separation of covered employment may an employee access the balance through a refund or distribution. The employer's defined benefit contribution is not credited to any specific employee's account, but is placed in the employer's RAA, which is not refundable to the employee.

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## **DEFERRED COMPENSATION AND CASH MATCH PLANS**

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The Commonwealth of Virginia 457(b) Deferred Compensation Plan (COV 457 Plan) is a supplemental plan to the VRS defined benefit and hybrid retirement plans. The COV 457 Plan allows employees to defer income taxes on their savings until they withdraw the money, with the exception of Roth contributions, which are made on an after-tax basis and may be withdrawn tax free. Information about the COV 457 Plan can be found at [www.varetire.org/457](http://www.varetire.org/457).

The COV 457 Plan covers employees of state agencies. Political subdivisions and public school divisions may adopt the COV 457 Plan and can determine which of their employees are eligible to participate at the time of adoption. Unless specified otherwise, all employees are eligible to participate, including wage or other non-benefitted employees.

The Virginia Cash Match Plan is an employer-paid cash match program for qualified employees who are making regular contributions to the COV 457 Plan. The Virginia Cash Match Plan is available to all salaried state employees who contribute to the COV 457 Plan, as well as to salaried employees of political subdivisions and school divisions that have adopted the Cash Match Plan and who are making regular contributions to the COV 457 Plan.

An employee in the Hybrid Retirement Plan is not eligible for a match in the Virginia Cash Match Plan until he has reached and maintains the 4% voluntary contribution to the Hybrid 457 Deferred Compensation Plan.

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### **ENROLLMENT BY THE PARTICIPANT**

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Any new employee should be enrolled in *myVRS* Navigator on or before the employee's scheduled start date. This allows his account to be established at ICMA-RC so the employee can elect to participate in the COV 457 Plan. The eligible employee can then elect his deferral amount (per pay period) through ICMA-RC online or by phone. Should a wage employee want to participate in the COV 457 Plan, the employee must complete and return the Wage Participant Enrollment Form to ICMA-RC. To find the form, go to [www.varetire.org/457](http://www.varetire.org/457) under the Forms tab.

## **AUTOMATIC ENROLLMENT**

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Salaried state employees are automatically enrolled in the COV 457 Plan. Political subdivisions and school divisions that participate in the COV 457 Plan can elect to have new employees auto-enrolled in the plan upon employment or re-employment. However, employees in the Hybrid Retirement Plan are not eligible for automatic enrollment.

Each semi-monthly pay period, \$20 is automatically deducted from the employee's pay on a pre-tax basis. A new or rehired salaried state employee is not automatically enrolled if one of the following conditions apply:

- he has an existing COV 457 Plan balance from a previous period of employment,
- he self-enrolls,
- he begins making continuous contributions to a 403(b) plan provided by his employer, prior to the date he is due to be automatically enrolled,
- he opts out of participation using the methods prescribed by VRS, or
- he is covered by the Hybrid Retirement Plan.

The employer cash match for these contributions is \$10 a pay period. If the employee chooses to contribute more to the 457 Plan, the maximum cash match available is \$20 per pay period.

A new hire or rehire has 90 days from the date of employment to opt out of the COV 457 Plan following the on-line or telephone instructions provided to him by ICMA-RC. An employee may also withdraw from the COV 457 Plan within 90 days of the first automatic contribution posting to his account and request to have the deferral(s) refunded as an Eligible Automatic Contribution Arrangement (EACA) distribution. The cash match is forfeited.

## **DEFERRAL CHANGES**

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To change both the pre-tax and Roth after-tax deferral amounts, participants can log into their account at [www.varetire.org/457](http://www.varetire.org/457). Federal regulations require that any change is effective no earlier than the first pay date of the following month. For political subdivisions and school divisions and non-CIPPS reporters, ICMA-RC sends a reminder email at the beginning of each month to prompt the employer to pull the Deferral Changes report from EZLink. For step-by-step instructions about how to retrieve the report, view the Deferral

Changes Report “how to” guide located at [www.varetire.org/hybrid-er](http://www.varetire.org/hybrid-er) under the Admin tab. DOA will provide a report to CIPPS employers.

## **CONTRIBUTION LIMITS**

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The Internal Revenue Service announces the allowable contribution limits on an annual basis, which apply to both pre-tax and Roth after-tax contributions. Current contribution limits can be found at [www.varetire.org/457](http://www.varetire.org/457) under Plan Information.

Employers should monitor the limits for the Hybrid 457 Deferred Compensation Plan and the COV 457 Plan using the Contribution Limit report provided in EZLink. Once logged into EZLink, go to Reports, Contribution Information and then Contribution Limit. Although these are two separate plans, the combined deductions of both plans cannot exceed the annual contribution limit.

## **CATCH-UP PROVISIONS**

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The Age 50+ Catch-up provision allows a participant who reaches the age of 50 or older in the current calendar year to contribute an additional amount to the COV 457 Plan. Since it is based on the participant’s date of birth, there is no application process required for a participant to use this provision. The employee should adjust his per pay period deferral amount to contribute any additional catch-up amount. Catch-up contribution limits can be found at [www.varetire.org/457](http://www.varetire.org/457) under Plan Information. These limits apply to both pre-tax and Roth after-tax contributions.

The Standard Catch-up (SCU) provision allows a participant to catch-up contributions to the COV 457 Plan for any year in which he was eligible to contribute, but did not reach the contribution limit. Participants may contribute twice the annual IRS contribution limit or the regular IRS contribution limit plus their SCU credit, whichever is less. The SCU credit is the amount participants were eligible to contribute, but did not contribute in previous years.

The SCU cannot be used concurrently with the Age 50+ limit. The SCU is available only during the three consecutive calendar years prior to the calendar year in which the participant has reach his selected SCU normal retirement age. The SCU normal retirement age selected can be no earlier than the age at which he is first eligible for an

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unreduced retirement benefit. The participant should complete the Standard Catch-up Application, available in the forms section at [www.varetire.org/457](http://www.varetire.org/457).