

MEMBERSHIP

EMPLOYER MANUAL

TABLE OF CONTENTS

ELIGIBILITY	1
Exceptions to Mandatory Membership	
Felony Convictions	
PLAN PROVISIONS	4
Plan 1	
Plan 2	
Hybrid Retirement Plan	
Employer-Sponsored Hybrid 403(b) Option for School Divisions	
Deferred Members	
CONTRIBUTION OVERVIEW	6
EMPLOYEE CONTRIBUTION	7
Plan 1 and Plan 2 Employee Contributions	
Hybrid Employee Contributions	
Auto-Escalation for Hybrid Employees	
EMPLOYER CONTRIBUTION RATE	9
Plan 1 and Plan 2 Employer Contributions	
Hybrid Employer Contributions	
Calculating the Employer Defined Benefit Contribution Rate for Hybrid Members	
Taxability of the Contributions	
VESTING	14
Plan 1 and Plan 2 Vesting	
Hybrid Retirement Plan Vesting	
FORFEITURE	14
BORROWING	15
DEFERRED COMPENSATION AND CASH MATCH PLANS	15
Enrollment by the Participant	
Automatic Enrollment	
Deferral Changes	
Contribution Limits	
Catch-Up Provisions	

MEMBERSHIP

EMPLOYER
MANUAL

Membership in the Virginia Retirement System (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 hire date is the first business day of the month, membership in VRS begins immediately. If the hire date is after the first day of the month, membership begins the first of the month following the hire date.

ELIGIBILITY

Membership in VRS is mandatory for all:

- Full-time permanent, salaried state employees and faculty of Virginia's public colleges and universities. Part-time permanent, salaried state employees also are covered under VRS.
- Full-time permanent, salaried teachers and administrative employees of the state's local public school divisions. These employees include school managers and clerical employees.
- Full-time permanent, salaried employees of VRS-participating political subdivisions, such as cities, counties, towns, authorities and commissions. These employees may include school maintenance, janitorial and cafeteria employees and school bus drivers as elected by the school division.

The employee's position cannot be temporary, seasonal or provisional in nature. However, part-time, permanent 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.¹

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, VRS has established guidelines 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. Thirty hours is the suggested minimum number of hours for full-time employment.

¹ Adjunct faculty are not eligible.

M E M B E R S H I P

- 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 he must be provided health care coverage under the Affordable Care Act.

EXCEPTIONS TO MANDATORY MEMBERSHIP

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 non-participating political subdivision who are promoted to positions that 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 non-participating political subdivision who, through election to a position as a constitutional officer, are no longer eligible for membership in the local system but who 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 the 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 the 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. An ORPHE participant with a VRS member contribution account

MEMBERSHIP

(MCA) may transfer his VRS contributions to his ORPHE account. Doing so will result in no further benefits being paid from the defined benefit plan.

- 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.² 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 he was covered by the ORPPA. An ORPPA participant with a VRS MCA 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 he 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 MCA may transfer his VRS contributions to his ORPSS account.
- 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 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 for retirement by the Foundation. 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. Membership is also not available to representatives serving on school boards, boards of supervisors, city councils or town councils.

When a non-U.S. resident is hired, he should not be reported to VRS if his eligibility to stay is less than 5 years. For example, a person holding an H-2B visa should not be reported to VRS as the maximum duration of the visa is an initial period of one year with two one year extensions, for

² 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.

M E M B E R S H I P

a total of three years. In addition, employees of the Visiting International Faculty (VIF) Company in Chapel Hill, NC, are not eligible for VRS benefits and should not be reported. However, persons holding a Permanent Residency Card or H-1B visa should be reported for retirement and group life insurance.

Retired members who subsequently return to work in a full-time critical teaching position should be reported to VRS using the Certification of Eligibility for Critical Shortage Teachers and Administrators (VRS-160). See the Service Retirement Chapter of the Employer Manual for more information.

FELONY CONVICTIONS

If a member 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 member 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 member is convicted after he begins receiving benefits, the benefits will stop.

The member will be eligible for a full or partial refund of his employee contributions and interest based on vesting requirements for refunds detailed in the Refunds and Distributions Chapter of the Employer Manual. If the member returns to a covered position at a later date, the service lost as a result of the felony action cannot be purchased.

PLAN PROVISIONS

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

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 Optional Retirement Plan (ORP) Plan 1 if they have an ORP membership date before July 1, 2010 and maintain an account balance.

MEMBERSHIP

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

PLAN 2

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 the Virginia Law Officers' Retirement System (VaLORS), State Police Officers' Retirement System (SPORS), with enhanced hazardous duty benefits or the Hazardous Duty Alternate Option and who 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

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 employees 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 Retirement 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 Retirement

MEMBERSHIP

Plan began on July 1, 2014.

EMPLOYER-SPONSORED HYBRID 403(B) OPTION FOR SCHOOL DIVISIONS

School divisions may elect annually to offer an employer-sponsored hybrid 403(b) option for their Hybrid employees. If the employer-sponsored hybrid 403(b) option is elected, the employer must provide employees with an annual election window between November 1-30 to make voluntary contributions to the employer-sponsored plan or to the Hybrid 457 Deferred Compensation Plan administered by VRS. If the employee does not make an election, he may continue or begin to make voluntary contributions to the VRS Hybrid 457 Deferred Compensation Plan. School divisions should contact their employer representative to request a resolution packet.

DEFERRED MEMBERS

A member who separates from a covered position and does not withdraw defined benefit retirement contributions from the MCA is in a deferred status. When the member leaves employment, the employer must separate him in myVRS Navigator.

A Plan 1 member who defers retirement (does not take a refund) and later returns to covered employment will be rehired as a Plan 1 member and covered under the defined benefit plan that is applicable to his covered position (VRS, VaLORS or SPORS). A Plan 2 member who defers retirement and later returns to covered employment will be rehired as a Plan 2 member and covered under the defined benefit plan that is applicable to his covered position.

Note: A member who is appointed to a judicial position (JRS) on or after January 1, 2014 is covered under the Hybrid Retirement Plan, even if the member has previous Plan 1 or Plan 2 service.

However, a Plan 1 or Plan 2 member who leaves covered employment and takes a refund will be rehired under the Hybrid Retirement Plan (for rehire dates on or after January 1, 2014).

CONTRIBUTION OVERVIEW

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.

MEMBERSHIP

- Accumulated leave pay.
- Payments of a temporary nature, including bonuses.
- Salary increases due to a temporary appointment in an “interim” or “acting” position.
- 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 VRS members, 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 members, contributions are paid to both the defined benefit and defined contribution components. Contributions made to the defined contribution component for Hybrid members are invested through ICMA-RC in investment options selected by VRS, to provide a retirement benefit based on contributions and the performance of the member’s investment elections.

Note: For information regarding ORP contributions, refer to the appropriate *Choosing Your Retirement Plan* guide from the Publications section of the VRS website.

EMPLOYEE CONTRIBUTION

The employee contribution 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

Plan 1 and Plan 2 members (excluding Plan 1 state elected officials and 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.

Plan 1 or Plan 2 employee contributions are placed in the MCA and 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 retirement benefits are based on a formula, the amount of retirement contributions and interest in a MCA does not affect the value of the retirement benefit.

HYBRID EMPLOYEE CONTRIBUTIONS

A Hybrid member contributes to both the defined benefit and defined contribution components of the Hybrid Retirement Plan. The member manages the investment of all contributions to the defined contribution component.

- **Mandatory 4%:** The member must contribute 4% of his creditable compensation per month to the defined benefit component, which is placed in the MCA.
- **Mandatory 1%:** The member must contribute 1% of his creditable compensation to the defined contribution component, which goes to the Hybrid 401(a) Cash Match Plan. (See the Hybrid Employer Contributions section of this chapter for employer matching information.)
- **Voluntary contribution:** The member 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.³ Voluntary contributions are not set up automatically for new employees. (See the Hybrid Employer Contributions section of this chapter for employer matching information.)

Voluntary contribution elections are made through ICMA-RC and are effective quarterly. An employee has until the 15th 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 member. 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). Political subdivision, school division and decentralized state employers will receive quarterly email reminders to log into EZLink, ICMA-RC's online system, to retrieve their Deferral Changes reports. 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 by clicking on the Admin tab and then the EZLink option.

AUTO-ESCALATION FOR HYBRID EMPLOYEES

A member who is not contributing the full 4% voluntary contribution to the defined contribution component will have his contribution rate automatically increased by 0.5% on set dates every three years until his contribution rate reaches 4%. The first auto-escalation for all Hybrid

³ School division employees who participate in their employer-sponsored hybrid 403(b) make voluntary contributions to that plan. The associated employer match is also made to the employer-sponsored plan.

MEMBERSHIP

members (regardless of hire date) occurred on January 1, 2017. The next auto-escalation date is January 1, 2020.

A Hybrid member may opt out of auto-escalation but must do so every three years during the opt-out window.

Example: A Hybrid member was hired on August 1, 2015 and began voluntarily contributing 2% to his defined contribution component. He did not opt out of auto-escalation so on January 1, 2017, his voluntary contribution increased to 2.5%. His next auto-escalation date will be January 1, 2020 unless he opts out.

Employers do not need to calculate the increase or track deferral changes and opt outs, which will be done by ICMA-RC. At the end of the opt-out period, all employers will follow the normal process for making deferral changes. Decentralized state agencies, school divisions and political subdivisions should download the Deferral Changes Report via EZLink to see the new deferral amounts and process payroll changes ahead of January. State agencies using CIPPS will follow the normal payroll certification process.

Employers should ensure that the associated employer match is also set up in payroll and to reconcile all voluntary contribution amounts and the associated employer match amounts with their January snapshot.

EMPLOYER CONTRIBUTION RATE

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. 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 funds in the RAA include contributions for Plan 1 and Plan 2 employees and for the defined benefit component of Hybrid 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.

MEMBERSHIP

VRS manages the investment and related risk for all defined benefit contributions (Plan 1, Plan 2 and the defined benefit component of the Hybrid Retirement Plan). A Hybrid member manages the investment and related risk of employer contributions to his defined contribution component of the Hybrid Retirement Plan.

PLAN 1 AND PLAN 2 EMPLOYER CONTRIBUTIONS

The employer pays contributions for Plan 1 and Plan 2 members based on the total employer contribution rate and each employee's creditable compensation and contribution basis. For more information, see the Enroll and Maintain Employees Chapter of the Employer Manual.

HYBRID EMPLOYER CONTRIBUTIONS

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

The employer contributions due for each Hybrid member are:

- **Mandatory 1%:** The employer must contribute 1% of each Hybrid member's creditable compensation.
- **Employer match on employee voluntary contribution:**
 - **Match on first 1%:** The employer must match the first voluntary contribution completely. If the Hybrid member makes a voluntary contribution of 1% to the defined contribution component, the employer must match that 1%. However, if the member contributes 0.5%, the employer must match the 0.5%. Later, if the member 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 member contributes, the employer must match 0.25%. The employer's maximum contribution for the defined contribution component is 3.5% for a member who has elected the maximum voluntary contributions of 4%.

MEMBERSHIP

- **Employer-sponsored 403(b) option for school divisions:** If the employee elects the employer-sponsored Hybrid 403(b) for his voluntary contributions, the employer will contribute the corresponding employer match to an employer-sponsored Hybrid 403(b) or 401(a) plan.
- **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 Calculating the Employer Defined Benefit Contribution Rate for Hybrid Members section of this chapter to calculate this rate.

CALCULATING THE EMPLOYER DEFINED BENEFIT CONTRIBUTION RATE FOR HYBRID MEMBERS

Since the total employer contribution rate is the same for all members (Plan 1, Plan 2 and Hybrid), the employer's VRS defined benefit rate is variable for Hybrid members. The formula to determine the employer defined benefit contribution rate for each Hybrid member is:

Total employer contribution rate

minus the mandatory employer contribution (1% of creditable compensation)

minus the employer's match on member voluntary contributions (0 to 2.5% of creditable compensation)

equals the employer's defined benefit contribution rate for the member

M E M B E R S H I P

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

Defined Contribution payments to ICMA-RC				Defined Benefit payments to VRS		Totals	
A	B	C	D	E	F**	G*	H**
Member	Employer	Member	Employer	Member	Employer	Member	Employer
Mandatory Hybrid 401(a)	Match on member's Mandatory Hybrid contribution	Voluntary Hybrid 457	Match on member's Voluntary Hybrid contribution				
1.0%	1.0%	0	0	4.0%	F=H-D-B	5.0%	H=B+D+F
1.0%	1.0%	0.5%	0.5%	4.0%	F=H-D-B	5.5%	H=B+D+F
1.0%	1.0%	1%	1%	4.0%	F=H-D-B	6.0%	H=B+D+F
1.0%	1.0%	1.5%	1.25%	4.0%	F=H-D-B	6.5%	H=B+D+F
1.0%	1.0%	2.0%	1.5%	4.0%	F=H-D-B	7.0%	H=B+D+F
1.0%	1.0%	2.5%	1.75%	4.0%	F=H-D-B	7.5%	H=B+D+F
1.0%	1.0%	3.0%	2.0%	4.0%	F=H-D-B	8.0%	H=B+D+F
1.0%	1.0%	3.5%	2.25%	4.0%	F=H-D-B	8.5%	H=B+D+F
1.0%	1.0%	4.0%	2.5%	4.0%	F=H-D-B	9.0%	H=B+D+F

* Columns A + C + E = Column G

** Columns B + D + F = Column H

Example: A Hybrid member chooses to make a 3% voluntary contribution to his defined contribution component, for a total of 8% employee contributions. His employer's total employer contribution rate is 8.76%.

	Employee %	Employer %
Mandatory Defined Contribution	1.00%	1.00%
Voluntary Defined Contribution and Match	3.00%	2.00%
Defined Benefit	4.00%	5.76%
Totals	8.00%	8.76%

MEMBERSHIP

The employer is responsible for calculating the employer match for the voluntary contributions in his payroll system to ensure that contributions are remitted each time they 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

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

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

¹ 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.

² Please see the IRS-issued Instructions for Forms W-2 and W-3 for additional information.

³ 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.

⁴ 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.

VESTING

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

PLAN 1 AND PLAN 2 VESTING

Vesting occurs when a member 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

A Hybrid member becomes vested in the defined benefit component after accumulating five years of creditable service. If vested to the defined benefit component, a Hybrid member 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 retiring 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 on his years of participation in the plan:

Vesting Requirements for the Hybrid Retirement Plan	
Defined Benefit Component	Defined Contribution Component
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*

FORFEITURE

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

M E M B E R S H I P

Refunds and Distributions Chapter of the Employer Manual 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.

A Hybrid member who is not 100% vested in the employer contributions portion of the defined benefit component forfeits his non-vested funds back to the employer when:

- He requests a distribution from the Hybrid 401(a) Cash Match Plan.
- He requests a refund of his MCA under the defined benefit component of the Hybrid Retirement Plan.
- He dies.

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.

BORROWING

An employee may not borrow from the defined benefit plan, the Hybrid 457 Deferred Compensation Plan or the Hybrid 401(a) Cash Match Plan; he can only access the balance through a refund or distribution when he separates covered employment. 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.

DEFERRED COMPENSATION AND CASH MATCH PLANS

The Commonwealth of Virginia 457(b) Deferred Compensation Plan (COV 457 Plan) is a supplemental plan to the VRS defined benefit plan, Hybrid Retirement Plan and optional retirement plans. The COV 457 Plan allows an employee to defer income taxes on his savings until he withdraws 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.

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

M E M B E R S H I P

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.

A Hybrid member 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.

ENROLLMENT BY THE PARTICIPANT

A new employee should be enrolled in myVRS Navigator on or before his scheduled start date. This allows his account to be established at ICMA-RC so he 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. A wage employee who wants to participate in the COV 457 Plan must complete and return the Wage Participant Enrollment Form to ICMA-RC. The form is online at www.varetire.org/457 under the Forms tab.

AUTOMATIC ENROLLMENT

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, Hybrid members 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.
- He is covered by the Hybrid Retirement Plan.

M E M B E R S H I P

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 online 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 may request to have the deferral(s) refunded as an Eligible Automatic Contribution Arrangement (EACA) distribution. The cash match is then forfeited.

DEFERRAL CHANGES

To change both the pre-tax and Roth after-tax deferral amounts, an employee can log into his account at 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 under the Admin tab. DOA provides a report to CIPPS employers.

CONTRIBUTION LIMITS

The Internal Revenue Service (IRS) 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 under Plan Info.

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

The Age 50+ Catch-Up Provision allows an employee who reaches age 50 or older in the current calendar year to contribute an additional amount to the COV 457 Plan. Since the provision is based on his date of birth, there is no application process.

M E M B E R S H I P

The employee should adjust his per-pay-period deferral amount to contribute additional catch-up funds. Catch-up contribution limits can be found at www.varetire.org/457 under Plan Info. These limits apply to both pre-tax and Roth after-tax contributions.

The Standard Catch-Up (SCU) Provision allows an employee 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. An employee may contribute twice the annual IRS contribution limit or the regular IRS contribution limit plus his SCU credit, whichever is less. The SCU credit is the amount an employee was eligible to contribute, but did not contribute in previous years.

The SCU cannot be used concurrently with the Age 50+ Catch-Up Provision limit. The SCU is available only during the three consecutive calendar years prior to the calendar year in which the employee 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 unreduced retirement benefit. The member should complete the Standard Catch-Up Form, available in the forms section at www.varetire.org/457.