

SERVICE RETIREMENT

EMPLOYER MANUAL

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A VRS member who meets eligibility requirements may apply for retirement benefits that are paid to him for life. Plan 1 and Plan 2 are defined benefit plans, which provide a monthly benefit based on a formula defined by the plan. The Hybrid Retirement Plan has both a defined benefit component and a defined contribution component. In addition, an eligible Plan 1, Plan 2 or Hybrid member who enrolled in a deferred compensation plan during employment may take distributions in retirement.

A member may also choose to defer retirement until a later date, rather than apply for retirement when he is eligible. When he retires, a member may be eligible for cost-of-living adjustments (COLA), health insurance credits and life insurance.

Before he retires, a member can use myVRS to calculate his monthly benefit based on his retirement date and payout options. Employers can also use myVRS to create and save retirement estimates for their employees.

RETIREMENT ELIGIBILITY FOR THE DEFINED BENEFIT

The member's plan, hire date and employer type determine his age and creditable service requirements for service retirement. A member may receive a full, unreduced benefit when he meets age and service requirements or he can retire earlier with a reduced benefit.

Note: If a member is actively employed in more than one position eligible for coverage under VRS (including a part-time position), he must terminate all positions before the retirement date.

UNREDUCED RETIREMENT

State employees, teachers and most political subdivision employees are eligible to retire with a full, unreduced benefit when they meet the following age and service requirements:

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Plan*	Age & Service
VRS Plan 1 ¹	Age 65 with at least 5 years of service or Age 50 with at least 30 years of service
VRS Plan 2 and VRS Hybrid ²	Age and service equal 90 or Normal Social Security Retirement Age with at least 5 years of service.

* Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements.

Note: Certain political subdivisions elected not to provide unreduced retirement benefits at age 50 with 30 years of service. If an agency's eligibility criteria varies from the standard, the agency should advise employees of any differences in eligibility requirements.

Normal Social Security retirement age is the age at which an individual is eligible for an unreduced Social Security benefit. The age is based on the employee's date of birth.

Year of Birth	Normal Retirement Age
1937 and prior	65
1938	65 years, 2 months
1939	65 years, 4 months
1940	65 years, 6 months
1941	65 years, 8 months
1942	65 years, 10 months
1943-1954	66
1955	66 years, 2 months
1956	66 years, 4 months
1957	66 years, 6 months
1958	66 years, 8 months
1959	66 years, 10 months
1960 and later	67

¹ See Code of Virginia §§ 51.1-153(A); 51.1-153(B)(2).

² See Code of Virginia §§ 51.1-153(A); 51.1-153(B)(2).

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REDUCED RETIREMENT

State employees, teachers and most political subdivision employees are eligible to retire early with a reduced benefit when they meet the following age and service requirements:

Plan*	Age & Service
Plan 1 ³	age 55 with at least 5 years of service or age 50 with at least 10 years of service
Plan 2 and Hybrid ⁴	age 60 with 5 years of service

* Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements

The amount of the reduction is based on how close the member is to meeting the requirements for a full benefit. The reduction amount is based on plan, age and years of service. Reductions are applied as follows:

Type*	Reduction
55/5	A ½ % reduction is applied for the first 60 months, and 4/10 of 1% for any additional months the member needs to meet age or service requirements for an unreduced benefit.
50/10 (with fewer than 30 years)	<p>The benefit at retirement is the higher of either:</p> <ul style="list-style-type: none"> • The amount determined based on service credit and average final compensation (AFC), reduced by 1/2% for the first 60 months; plus <ul style="list-style-type: none"> ○ 4/10 of 1% for any additional months the member needs to meet age and service requirements for an unreduced benefit; plus <ul style="list-style-type: none"> ○ an additional reduction of 6/10 of 1% for each month the member is younger than age 55; <p>or</p> <ul style="list-style-type: none"> • The actuarially calculated present value of the retirement contributions and interest in the member's account, paid out in monthly payments for life.
60/5	<p>The reduction is based on whether the member is closer to:</p> <ul style="list-style-type: none"> • Full Social Security retirement age; or • The first date on which the member would have completed 30 years of service and the age plus service equal 90.

* Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements

³ See [Code of Virginia](#) §§ 51.1-153(A); 51.1-153(B)(2).

⁴ See [Code of Virginia](#) §§ 51.1-153(A); 51.1-153(B)(2).

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DEFINED BENEFIT FORMULA

The member's defined benefit amount is calculated using a formula that uses his average final compensation (AFC), multiplier(s) and years of creditable service. The formula for the Basic Benefit payout option is outlined below. Various reduction factors are applied to other payout options.

The member's AFC is determined by his plan participation.

Plan	AFC
Plan 1	Average of the 36 consecutive months of highest creditable compensation, whenever it appears in the employee's VRS salary history
Plan 2 and Hybrid Retirement Plan	Average of the 60 consecutive months of highest creditable compensation, whenever it appears in the employee's VRS salary history

The following salary increases should not be reported to VRS as creditable compensation and cannot be included in a member's AFC:

- Increases not related to a promotion;
- Increases that exceed the average increase received by other employees of the same employer holding comparable positions;
- Housing, travel, vehicle or cell phone allowances.

If an employer is found to have reported these types of increases as creditable compensation and an overpayment of retirement benefits result, VRS may recover the overpayment from the employer. For more information on creditable compensation exclusions, see the Membership Chapter of the Employer Manual.

The multiplier used in the formula is based on the member's plan. The member may have more than one multiplier.

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Plan*	Multiplier
Plan 1	1.7% of member's AFC
Plan 2	1.65% of member's AFC for service earned, purchased or granted on or after January 1, 2013
	1.7% of member's AFC for service earned, purchased or granted prior to January 1, 2013
Hybrid	Members hired on or after January 1, 2014: <ul style="list-style-type: none"> • 1% of employee's AFC; Plan 1 Transfers: <ul style="list-style-type: none"> • 1.7% for service prior to July 1, 2014; • 1% for service after July 1, 2014; Plan 2 Transfers: <ul style="list-style-type: none"> • 1.7% for service prior to January 1, 2013; • 1.65% for service from January 1, 2013 – June 30, 2014; • 1% for service after July 1, 2014;

* Age and service requirements apply only to VRS Plan 1, Plan 2 and Hybrid members. JRS, VaLORS, SPORS and VRS hazardous duty employees are subject to different age and service requirements

UNREDUCED BENEFIT FORMULA

The formula for an unreduced Basic Benefit is:

$$\begin{array}{r}
 \text{AFC} \\
 \text{Multiplier} \\
 \times \text{ Service} \\
 \hline
 \text{Annual Benefit} \div 12 \text{ months} = \text{Unreduced Monthly Benefit}
 \end{array}$$

If the member has more than one multiplier, each period of service is calculated using the appropriate multiplier. A benefit with more than one multiplier would be calculated as follows:

$$\begin{array}{r}
 \text{AFC} \\
 \text{Multiplier} \\
 \times \text{ Service} \\
 \hline
 \text{(Annual Benefit)}
 \end{array}
 +
 \begin{array}{r}
 \text{AFC} \\
 \text{Multiplier} \\
 \times \text{ Service} \\
 \hline
 \text{Annual Benefit}
 \end{array}
 \div 12 \text{ months} = \text{Unreduced Monthly Benefit}$$

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Example: A Hybrid member who transferred from Plan 2 has an AFC of \$100,000 and worked 18 years until December 31, 2012; one year and six months from January 1, 2013 until June 30, 2014; and four years starting on July 1, 2014 has three different multipliers. His benefit is calculated as follows:

$$\begin{array}{r} \$100,000 \\ .017 \\ \hline x \quad 18 \\ \hline \$30,600 \end{array} + \begin{array}{r} \$100,000 \\ .0165 \\ \hline x \quad 1.5 \\ \hline \$2,475 \end{array} + \begin{array}{r} \$100,000 \\ .01 \\ \hline x \quad 4 \\ \hline \$4,000 \end{array} = \$37,075 \div 12 = \$3,089.58$$

REDUCED BENEFIT FORMULA

A member's benefit is actuarially reduced to calculate the reduced Basic Benefit:

$$\frac{\text{AFC} \times \text{Multiplier} \times \text{Service}}{\text{Annual Benefit} \div 12 \text{ months}} = \frac{\text{Unreduced Monthly Benefit} \times \text{Early Retirement Factor}}{\text{Reduced Monthly Benefit}}$$

Note: An additional reduction factor is applied to a VRS Plan 1 member retiring under the 50/10 reduced retirement provision.

DEFINED BENEFIT PAYOUT OPTIONS

A member applying for retirement can choose how he will receive his retirement benefits from several defined benefit payout options.

A member may change his payout option within 30 days of the time his retirement application is approved, even if his retirement date has passed. The revised application with a new payout option must be received by VRS within the 30-day window.

BASIC BENEFIT

The Basic Benefit is payable to the member only and does not provide a survivor benefit.

During employment, a member's defined benefit contributions are kept in his Member Contribution Account (MCA). Once he retires, he receives a monthly defined benefit based on a formula, not on the amount in his MCA. After the MCA is exhausted, usually within three years of retirement, the

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benefit is paid from the separate contributions the employer makes to VRS and investment earnings.

If the member retires and then dies before his MCA is exhausted, his beneficiary will receive the remaining amount in the MCA. However, if the MCA is exhausted, no additional retirement benefits are payable.

Once the Basic Benefit is selected, if the member retires then returns to VRS-covered employment, the Basic Benefit must be selected in any subsequent retirements.⁵

All members are eligible for the Basic Benefit, including disability retirement applicants and members taking an early, reduced retirement.

Note: An early retirement reduction factor is applied if the member does not meet the age and service requirements for an unreduced benefit. Members can calculate their estimated early retirement reduction factors using myVRS.

To calculate a member's Basic Benefit, see the Unreduced Benefit Formula section and the Reduced Benefit Formula section of this chapter or use the retirement planner in myVRS.

SURVIVOR OPTION

If a member selects the Survivor Option, a monthly retirement benefit is paid to a survivor after the member's death. The member's Basic Benefit is actuarially reduced based on the ages of the member and the survivor at the date of the member's retirement.⁶ Payments continue until the survivor's death.

The survivor may be any individual(s) selected by the member. If a member elects more than one survivor, the benefit is calculated based on the age of the youngest and divided equally.

The member may choose to have any whole percentage of the monthly benefit paid to the survivor, from 10 to 100%. The smaller the percentage of a monthly benefit the member leaves to the survivor, the smaller the reduction to the member's monthly benefit.

⁵ See [Code of Virginia § 51.1-165\(F\)](#).

⁶ See [Code of Virginia § 51.1-165\(A\)\(2\)](#).

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The IRS limits the percentage of the benefit payable to a non-spousal survivor. A member who chooses a non-spousal survivor whose age difference is 11 years or more cannot select a 100% Survivor Option. The greater the age difference between the member and the non-spousal survivor, the smaller the benefit the non-spousal survivor can receive. The benefit amount that can be paid depends on:

- The age difference between the member and the non-spousal survivor;
- The age at which the member begins to receive benefits.⁷

If the survivor is the member's spouse, a percentage limitation does not apply, regardless of the age difference between the member and the spouse.

If the member has selected the Survivor Option naming the spouse, minor child or parent as the survivor, and the member then dies after a retirement application is received and scanned by VRS but before the effective date of retirement, then the survivor is eligible for either the death-in-service benefit or the Survivor Option, whichever is greater. See the Death Benefits Chapter of the Employer Manual for more information.

If the member begins receiving benefits before age 70, the age difference between the member and non-spousal survivor is adjusted. The adjustment is equal to the number of years the member will receive benefits before age 70.

Example: The member is age 68 at retirement. The difference in age between the member and the non-spousal survivor is 30 years. The member will receive two years of benefits before age 70. Therefore, the age difference is adjusted by two years to equal 28. The maximum percentage that can be paid to the non-spousal survivor is 62%.

If the member begins receiving benefits after age 70, the actual age difference is used. Use the following chart to determine the maximum survivor percentage that may be paid to a non-spouse survivor:

⁷ See [Treasury Regulation](#) § 1.401(a)(9)-6.

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Excess of Member's Age Over Age of the Survivor (CA)	Maximum Percentage of Member's Benefit that May be Paid as a Survivor Annuity
10 years or less	100%
11	96%
12	93%
13	90%
14	87%
15	84%
16	82%
17	79%
18	77%
19	75%
20	73%
21	72%
22	70%
23	68%
24	67%
25	66%
26	64%
27	63%
28	62%
29	61%
30	60%
31	59%
32	59%
33	58%
34	57%
35	56%
36	56%
37	55%
38	55%
39	54%
40	54%
41	53%
42	53%
43	53%
44 and greater	52%

If the Survivor Option is selected, there are limited situations in which the member can change his named survivor or his payout option after he retires. See the Changing Retirement Options section of this chapter for more details.

PARTIAL LUMP-SUM OPTION PAYMENT

If a member chooses the Basic Benefit or Survivor Option, he can also select a Partial Lump-Sum Option Payment (PLOP). The PLOP is a one-time payment paid to the member in addition to the monthly benefit,⁸ and is issued after the member receives the first monthly retirement payment.

⁸ See [Code of Virginia § 51.1-165.01](#).

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The member must have worked for at least one, two, or three full years beyond eligibility for an unreduced retirement benefit to be eligible to select the PLOP.

The PLOP changes the way VRS pays the retirement benefit, not the value of the benefit, over the member's life expectancy. When a member chooses the PLOP, VRS calculates the member's Basic Benefit, and then reduces the benefit on an actuarially equivalent basis to reflect the payment of the lump-sum distribution.

If the member chooses the Basic Benefit with a PLOP, upon death there may be no contributions remaining in the MCA available for his beneficiary, since the PLOP is paid from the member's MCA. If the member chooses the Survivor Option with a PLOP, the benefit is calculated the same way as if he had elected the Basic Benefit with a PLOP; however, once the benefit is actuarially reduced to reflect the payment of the lump-sum distribution, the monthly benefit is reduced further depending on the percentage the member chose for the Survivor Benefit, the age of the member and the age of the survivor. While the PLOP under a Survivor Option is also paid from the member's MCA, the survivor is eligible for a Survivor Benefit since the member elected to receive an additional reduction to his monthly benefit to provide a monthly benefit after his death.

A member who selects the APO or who takes disability retirement is not eligible for the PLOP. A member is also not eligible to select the PLOP if the actuarial reduction in the monthly retirement benefit would result in a monthly payment that is less than \$50.

The following chart summarizes the amount of the PLOP a member may select depending on number of years worked after reaching eligibility for an unreduced benefit:

Time Worked After Reaching Eligibility for Unreduced Benefit	Amount of Lump-Sum Payment
1 year	1 times annual Basic Benefit amount
2 years	Choice of 1 or 2 times annual Basic Benefit amount
3 years	Choice of 1, 2, or 3 times annual Basic Benefit amount

A member cannot use purchased service credit or disability credits converted to service credits to meet the requirement to work one, two, or three years beyond eligibility for an unreduced retirement. The last 12, 24, or 36 months of service credit must be earned.

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A member who selects the PLOP and later returns to VRS-covered employment must select the same retirement option upon re-entering retirement.⁹ At the time of the second retirement, the member does not receive another partial lump-sum distribution; however, the monthly benefit is adjusted to reflect the additional service and creditable compensation.¹⁰

The PLOP is subject to a mandatory 20% federal tax withholding in the year it is received. In addition, 4% state tax is withheld if the member is a legal resident of Virginia at the time of payment. If part of the lump-sum amount includes member contributions on which the member has already paid taxes, that portion is not taxed again. If the member separates from service prior to the year he would attain age 55 and he is under age 59½ at the time the PLOP payment is made, the member may be required to pay a 10% penalty on the amount of the lump-sum payment.

Note: Age requirements are different for hazardous duty employees.

A member may defer paying taxes, and possibly eliminate the 10% tax penalty on the PLOP by rolling the taxable amount into the Virginia Cash Match Plan, an Individual Retirement Account (IRA) or other qualified plan as allowed by the *Internal Revenue Code*. An eligible employer plan is not legally required to accept a rollover. A member who wants to roll over the lump-sum payment to another plan should contact that plan's administrator to verify that the receiving plan is eligible to accept a direct rollover.

ADVANCE PENSION OPTION

A member retiring from service who has not attained full Social Security retirement age may be eligible for the Advance Pension Option (APO). Under this payout option, the member receives a temporarily increased retirement benefit based on estimated Social Security benefits, beginning on the effective date of retirement and continuing to an age chosen by the member.¹¹ The APO is designed to provide a more level income when combined with Social Security benefits than is available under the other options.

The APO is payable to the member only and does not provide a survivor benefit. If the member dies before receiving benefits equal to the amount of accumulated member retirement contributions plus

⁹ See Code of Virginia § 51.1-165(F).

¹⁰ See Code of Virginia § 51.1-165.01(E).

¹¹ See Code of Virginia § 51.1-165(A)(3).

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interest (including employer-paid member contributions paid after July 1, 1980), any funds remaining in the MCA are paid in a lump sum to the designated beneficiary. Members retiring with a PLOP or under the 50/10 early retirement option are not eligible for the APO.

The age the member chooses for the benefit to reduce must be at least age 62, but no later than the member's Normal Retirement Age as specified under the Social Security Act. Social Security Normal Retirement Age ranges from 65 to 67 and is determined by the member's date of birth. See the chart in the Eligibility for the Defined Benefit section of this chapter for a listing of Social Security Normal Retirement Ages. When the member reaches the chosen age, the monthly VRS retirement benefit is decreased by the estimated Social Security benefit. The reduced benefit cannot be less than 50% of the Basic Benefit. The reduction remains in effect for life.

The amount of Social Security benefits the member will receive and the age at which he begins to receive his Social Security benefit is unaffected by this option. The member must provide an estimate of his Social Security benefits. The VRS website provides instructions for using the online calculator to obtain a Social Security estimate and instructions for printing the Verify Information page and the Retirement Benefit Estimate page.

The APO benefit is structured as substantially equal periodic payments under the *Internal Revenue Code*; therefore, the benefit is not subject to federal and Virginia income tax withholdings. In addition, there is no 10% penalty for early distribution. Payments received under the APO cannot be rolled over to another qualified plan or IRA.

If a member returns to VRS-covered employment and retires again, the APO must be selected in any subsequent retirements.¹²

LUMP-SUM PAYMENTS

VRS does not provide monthly service retirement payments for amounts less than \$50. If a member's benefit is under this amount, a lump-sum payment is made, based on the member's life expectancy at retirement. A member whose computed benefit is more than \$50 per month cannot elect a lump-sum payment.

¹² See Code of Virginia § 51.1-165(F).

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The lump-sum payment is subject to a mandatory 20% federal withholding and a 4% state withholding for Virginia residents, unless rolled over to another qualified plan or IRA.

CHANGING PAYOUT OPTIONS

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

- The original survivor dies;
- The original survivor provides VRS with written consent giving up claim to a benefit along with proof of his good health;
- The survivor is the former spouse, the marriage lasted less than 20 years and the final divorce decree from the original survivor has been issued;
- The survivor is the former spouse, the marriage lasted 20 or more years, the final divorce decree from the original survivor has been issued and the former spouse dies, remarries or consents.

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

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

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

To initiate a change in the Survivor Option, the retiree must contact VRS. Once this request is received, the retiree is sent a letter and an Authorization to Change Retirement Benefit Payout Option (VRS-5C). The VRS-5C must be returned to VRS within 30 days or the process will be cancelled and the retiree must contact VRS to submit another request.

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

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

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

If the change of survivor occurs because the original survivor relinquishes rights to the survivor benefit, the change is effective the date VRS is first notified of the member's intention to change survivors. Initial notification may be made by telephone or letter; however, the member must complete a VRS-5C to officially authorize the change. If the member does not submit the authorization form until 30 days after the first notification, the effective date is retroactive to 30 days from the date the form is received.

Example: A member's survivor relinquishes rights to the survivor benefit. The member calls VRS on August 8 to express intent to change the survivor. The VRS-5C is sent to the member on August 9; however, it is not signed and submitted to VRS until December 15. The date of notification can only be backdated 30 days from December 15. If the member had submitted the form within 30 days of the August 8 notification, the effective date would have been August 8.

DIRECT DEPOSIT

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

Note: Participation in direct deposit is required, unless an exception has been filed and approved by VRS.

Direct deposit of the defined benefit payment is initiated at retirement as part of the Application for Service Retirement (VRS-5). A member who changes financial institutions after retirement must complete an Authorization for Direct Deposit of Monthly Benefit (VRS-57) to direct the deposits to a different account. Until this form is processed, VRS continues to send retirement payments to the old account. After the VRS-57 has been processed, a confirmation notice is sent to advise the member of the effective date of the direct deposit in the new account. VRS recommends that a member not close the old account until after the first deposit is made into the new account.

DEFINED CONTRIBUTION COMPONENT DISTRIBUTION OPTIONS

While Plan 1, Plan 2 and Hybrid members all have a defined benefit component, only Hybrid members also have a defined contribution component.

The distribution amount of a Hybrid member's defined contribution accounts is based on contributions made during employment and the rate of return on the investments. Upon retiring or separating employment, a Hybrid member may choose to take a distribution from his defined contribution accounts, but he is not required to do so until he reaches age 70½.

The member may choose from the following distribution options:

- A full or partial lump sum;
- Periodic payments;
- Annuity payments;
- A partial lump sum with remainder as a period payment or annuity;
- Rollover to another employer's plan or to another qualified plan.

For more information about the distribution options available:

- Review the Hybrid 457 Deferred Compensation Plan Distribution/Direct Rollover/Transfer Request form at www.varetire.org/hybrid under Forms;
- Review the Hybrid 401(a) Cash Match Plan Distribution/Direct Rollover/Transfer Request form at www.varetire.org/hybrid under Forms;
- Contact ICMA-RC at VRS-DCPLAN1 (877-327-5261) and select option 1 to speak with an investor services representative or option 3 to speak with an employer support representative.

Periodic installment payments from the defined contribution component must be deposited directly to a checking or savings account. A Hybrid member should complete the Direct Deposit Authorization as part of the Hybrid 457 Deferred Compensation Plan Distribution/Direct Rollover/Transfer Request form and the Hybrid 401(a) Cash Match Plan Distribution/Direct Rollover/Transfer Request form.

DEFERRED COMPENSATION AND CASH MATCH PLANS

Employees of the state and of participating political subdivisions and school divisions are eligible to participate in the Commonwealth of Virginia (COV) 457 Deferred Compensation Plan and Virginia Cash Match Plan, regardless of whether they are Plan 1, Plan 2 or Hybrid members.

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A participant is generally not required to take a distribution from the COV 457 Deferred Compensation Plan or from the Virginia Cash Match Plan at retirement. The participant may continue to manage his account and withdraw funds at a later date but must begin taking minimum distributions from the plan by April 1 of the year following the year he attains age 70½.

For more information about available distribution options, visit www.varetire.org/457 or call VRS-DCPLAN1 (877-327-5261).

Note: At the time of retirement, an eligible member who does not participate in the Virginia Sickness Disability Program (VSDP) may defer unused sick leave payments to the COV 457 Deferred Compensation Plan.

TAXES

In most cases, a retiree must pay federal and state taxes on the taxable portion of the monthly defined benefit payment. To do so, the employee indicates tax withholding information on the VRS-5 when applying for retirement. If VRS does not have this information on file, taxes are automatically withheld based on a status of married claiming three allowances for federal income tax withholding and if applicable, zero allowances for state income tax withholding. Any withholding changes needed after retirement can be made in myVRS or by submitting a Request for Income Tax Withholding (VRS-15) form.

Note: A member on work-related disability retirement may be exempt from taxes on his benefit. See the Disability Retirement Chapter of the Employer Manual for more information.

A retiree who does not have taxes withheld may be responsible for paying estimated taxes, and tax penalties may be assessed if his withholding and estimated tax payments are insufficient.

A retiree may change the withholding amount at any time during the year through myVRS or by filing a VRS-15. A change to the withholding may be needed if the retiree marries, divorces or has other changes during the year that affect tax status. A retiree who is not claiming resident status in Virginia and will not file income taxes with the Commonwealth of Virginia must mark the block indicating no state taxes are to be withheld. VRS does not withhold taxes for other states.

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

A member should contact the Virginia Department of Taxation if a resident of Virginia, the IRS or a tax advisor to determine actual tax liability. VRS makes every effort to provide the best tax information available, but it is the member's responsibility to ensure compliance with federal and state tax laws.

PARTLY TAXABLE PAYMENTS

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

The IRS's Simplified Method and General Rule determines the tax-free portion of the monthly annuity. Under this method the total of the contributions made on an after tax basis are divided by the total number of anticipated monthly payments to be received over the retirees expected lifetime, or the combined expected lifetime of the retiree and a survivor if there are survivor benefits to be paid, up to as long as 410 months. More information on the Simplified Method Rule is available on the IRS website (www.irs.gov) in IRS Publication 575.

TAXES ON DISTRIBUTIONS

A Hybrid member's distribution from his defined contribution accounts will vary depending on the type of distribution he requests. For more information, see the IRS 402(f) Special Tax Notice, available on the distribution forms at www.varetire.org/hybrid under Forms.

ATTACHMENTS TO RETIREMENT BENEFITS

VRS retirement benefits are exempt from county and municipal taxes and are not subject to execution, attachment, garnishment or any other process whatsoever, except under the following conditions:

- IRS tax levies (A retiree who is subject to IRS tax levies is notified by the IRS and VRS regarding the amount and duration of the attachment;
- Debt to a member's employer;
- Child support payments;

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- Marital property as stated in an ADRO.

Retirement benefits and assets created under Title 51.1 that are deemed to be marital property pursuant to Chapter 5 (Section 20-89.1 et seq.) of Title 20 of the *Code of Virginia* can be divided or transferred by a court by direct assignment to a spouse or former spouse pursuant to Section 20-107.3.¹³

APPROVED DOMESTIC RELATIONS ORDERS

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

The language of the ADRO must conform to VRS requirements. The member's attorney should provide VRS with a draft of the order before filing it with the court to ensure that the language is acceptable to VRS. An ADRO guide and model language can be found on the VRS website under the ADRO section of the Publications page.

APPLYING FOR SERVICE RETIREMENT

For comprehensive information about the retirement process, employers should distribute the *Applying for Service Retirement* booklet to employees considering retirement within 12 months. This booklet contains all of the required forms a member must submit and provides a summary of the options a member may select.

PRIOR TO APPLYING FOR RETIREMENT

Before submitting a retirement application, a member should consider his service credit options.

- The member should review outstanding purchases of prior service credit. All purchases must be completed before termination of employment;
- An eligible state employee should discuss with his employer whether he can convert disability credits into service, or whether he can use money from an accumulated sick leave payout to purchase service. However, the employer cannot create this eligibility in myVRS Navigator until a retirement date is in the system.

¹³ See *Code of Virginia* § 51.1-124.4(A).

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APPLICATION PROCESS

A retirement application must be received at least 60 days but not more than four months prior to the effective date of retirement. The retirement date is the first day of the month following the month in which the member last works or is last reported to VRS.

To apply for retirement, the employee should complete the necessary forms and submit them to VRS. When completing the VRS-5, the employer cannot sign the form on behalf of an employee unless the employee is physically or mentally unable to sign the form. If the employer signs, the payout option must be the Basic Benefit.

Once VRS processes the VRS-5, the employer will receive a secure message. The secure message will indicate if additional steps are needed, such as certifying hazardous duty service or processing accumulated sick leave purchases. If no additional information is needed, the employer will certify the retirement and separate the employee using myVRS Navigator. For step-by-step instructions about how to certify retirement, view the *Enroll and Maintain Employees Course* located in VRS University.

Form	Directions
Application for Service Retirement (VRS-5)	The member must select a payout option, include direct deposition information and choose monthly benefit tax withholding.*
Designation of Beneficiary (VRS-2)	The member may complete the VRS-2 to update his designated beneficiary for life insurance and for the defined benefit component of his MCA.
Designation of Beneficiary Form	A Hybrid member may complete this form to designate a beneficiary for Hybrid defined contribution plans.
Request for Health Insurance Credit (VRS-45)	<p>The member may complete a VRS-45 if eligible for the credit. To be given the health insurance credit, a member must have his employer complete a Certification of Employment for Health Insurance Credit Eligibility (VRS-76).</p> <p>Note: Once the retirement benefit has been determined, a retirement certificate is sent to the member. If the member is eligible for the health insurance credit, the retirement certificate will reflect the maximum amount that can be paid. If the member does not submit a VRS-45 with the retirement application, a copy of the form is included with the retirement certificate.</p>

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VRS Hybrid 457 Deferred
Compensation Plan Distribution/Direct
Rollover/Transfer Request Form

and

VRS Hybrid 401(a) Cash Match Plan
Distribution/Direct Rollover/Transfer
Request Form

A Hybrid member who wishes to take a distribution from
his defined contribution account must complete these
forms and submit them to:

ICMA-RC

Attn: Workflow Management Team

P.O. Box 96220

Washington, DC 20090-6220

** If the member is unable to complete the application, someone with specific court authority to execute the form or someone who has durable power of attorney containing specific authorization may complete the form. If the member selects a Survivor Option, the court order must specify the name of the person who is to receive the survivor benefit or in the case of durable power of attorney, the person given the authority to name the survivor.*

If a member is married or separated, the member's spouse must acknowledge the payout option chosen by the member. The spousal acknowledgment form will be mailed to the member if applicable. The member's name will not be added to the retirement payroll until the acknowledgement form is submitted and received by VRS. Any member who is unable to obtain spousal acknowledgment should contact VRS for more information.

WITHIN 31 DAYS AFTER RETIRING

The member must continue optional life insurance coverage or convert to an individual policy within 31 days of the end of the month in which separation from employment occurs. For more information about life insurance in retirement, see the Group Life Insurance Chapter of the Employer Manual.

A state employee must complete the following steps within 31 days following retirement:

- Elect to retain long-term care coverage under VSDP or the Virginia Local Disability Program (VLDP) Long-Term Care Plan (if eligible) by completing the Authorization of Coverage Retention Long-Term Care Plan (VRS-170) and the Protection Against Unintentional Lapse Long-Term Care Plan (VRS-171);
- Complete a State Health Benefits Program Enrollment Form For Retirees, Survivors And LTD Participants (Department of Human Resource Management Form T-20879)

CHANGES IN RETIREMENT DATE

A member who submits a service retirement application but then decides to retire at a different date must submit a new retirement application. The employer will then receive a secure message to certify the new retirement date and to update the separation date.

INSURANCE IN RETIREMENT

A member retains Basic Group Life Insurance coverage into retirement at no cost, provided eligibility requirements for service retirement are satisfied at the time employment ends. For information about how this benefit begins to reduce in retirement, see the Group Life Insurance Chapter of the Employer Manual.

Long-term care benefits help a member with the cost of long-term care services, such as nursing home care or at-home care to assist with bathing, eating or other activities of daily living. For more information about long-term care benefits, see the VSDP and VLDP chapters of the Employer Manual.

COST-OF-LIVING ADJUSTMENTS

A VRS retiree may receive a COLA to his monthly retirement benefit. Because VRS pays retirement benefits in arrears, the COLA is reflected in the August 1 payment. Adjustments are effective yearly thereafter on July 1 except in years of no inflation or deflation. In cases of no inflation or deflation an adjustment will not be made.

A member receives a COLA on July 1 after one full calendar year from the retirement date if he:

- Retires with an unreduced or reduced benefit with at least 20 years of service;
- Retires under the Transitional Benefits Program or the Workforce Transition Act with a reduced benefit;
- Retires under VSDP or VLDP disability;
- Involuntarily separates.

Example: If a member retired on September 1, 2017, the first COLA is effective with the July 1, 2019 payment, payable on August 1, 2019.

If the member retires with a reduced benefit with less than 20 years, the COLA takes effect July 1 after one calendar year from the unreduced retirement eligibility date. However, if the member was within five years of qualifying for an unreduced benefit on January 1, 2013, he is eligible to receive his COLA on July 1 of the second calendar year after retirement.

A January 1 retirement date is considered to be in the previous calendar year, and the retiree is eligible for a COLA after the first calendar year of retirement.

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Example: A member who retired on January 1, 2017 is eligible for a COLA effective July 1, 2018, reflected in the August 1, 2018 payment.

A retiree under the APO is eligible for a COLA on July 1 of the second calendar year after retirement. The COLA is calculated using the Basic Benefit the retiree would have received had the APO not been selected.

COLA AMOUNT

The amount of the COLA is directly dependent upon the Consumer Price Index-Urban (CPI-U) and is based on the retiree's plan.

A Plan 1 retiree receives a maximum annual COLA of 5%:

- All of the first 3% increase in the CPI-U;
- Half of the next 4% increase in the CPI-U.

A Plan 2 or Hybrid retiree receives a maximum annual COLA of 3%:

- All of the first 2% increase in the CPI-U;
- Half of the next 2% increase in the CPI-U.

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

HEALTH INSURANCE CREDIT PROGRAM

The health insurance credit is a benefit designed to assist retirees with the cost of health insurance coverage. The amount of the health insurance credit is a dollar amount set by the General Assembly for each year of creditable service at retirement.¹⁴

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

¹⁴ See [Code of Virginia](#) § 51.1-1400-1405.

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

ELIGIBILITY

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

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

A member who chooses to defer retirement is eligible for the health insurance credit at retirement, provided he meets health insurance credit eligibility requirements in effect at the time of retirement. A retiree covered as a dependent under an active state employee's health insurance coverage is eligible to apply for the health insurance credit by completing a Request for Health Insurance Credit (VRS-45). Reimbursement applies only to the retiree's portion of the premium.

RETIRED STATE EMPLOYEES

A state employee who retires may be eligible for the health insurance credit. A state employee is defined as any person employed full-time on a salaried basis and whose position is not considered a temporary or provisional appointment.¹⁵ A state employee's salary is funded at least in part by the Commonwealth of Virginia and is paid no more often than biweekly. The governor, lieutenant

¹⁵ See Code of Virginia § 51.1-124.3.

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governor, attorney general and members of the General Assembly are considered state employees.

RETIREMENT TEACHERS

A teacher who retires may be eligible for the health insurance credit. A teacher is defined as any person who is regularly employed full-time on a salaried basis as a professional or clerical employee of a county, city or other local school board.¹⁶

Note: A school superintendent who participates in ORPSS or an alternative defined contribution plan receives the health insurance credit in accordance with the guidelines established for determining the credit for retired teachers.

RETIREMENT LOCAL OFFICERS, SOCIAL SERVICES EMPLOYEES, AND GENERAL REGISTRARS

A local officer who retires may be eligible for the health insurance credit. Local officers include treasurers, commissioners of the revenue, commonwealth attorneys, Circuit Court clerks, sheriffs and employees of any of these individuals, including sheriff's deputies.¹⁷

Retired employees of local social services boards, retired general registrars and retired employees of general registrars may also be eligible for the health insurance credit. A member with 15 years of creditable service who retires as a local officer, social services employee, general registrar or employee of a general registrar is eligible for the health insurance credit.

RETIREMENT POLITICAL SUBDIVISION EMPLOYEES

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

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

¹⁶ See Code of Virginia § 51.1-124.3.

¹⁷ See Code of Virginia § 51.1-124.3(A).

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RETIRED ORP AND ARP PARTICIPANTS

An employee who participates in an ORP or an Alternative Retirement Plan (ARP) may also qualify for the health insurance credit. An ORP or ARP participant must meet all of the following requirements to qualify:

- Have a minimum of 15 years of coverage under the ORP/ARP or a combination of VRS service credit and ORP/ARP service that equals 15 years;

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

- Meet the age and service requirements for reduced or unreduced retirement under the VRS plan that he would have been eligible for based on hire date, had he not elected ORP;
- Have the agency benefit administrator complete the ORP/ARP Health Insurance Credit Employer Certification of Service (VRS-75) to certify ORP/ARP service eligibility for the credit. This form is completed and submitted to VRS by the employer when the employee applies for retirement and elects a periodic payment from the defined contribution plan. State ORP/ARP employees who are receiving long-term disability benefits under an employer-sponsored disability plan are eligible to receive the maximum credit regardless of service.

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

RETIRED GENERAL ASSEMBLY MEMBERS

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

Reimbursement applies only to the retiree's portion of the premium.

Upon retirement from the General Assembly, the member is eligible to enroll in the State Retiree's Health Benefits Program provided enrollment occurs within 31 days of retirement on an immediate annuity. A retiring member who has 15 or more years of service credit and who participates in a qualified health insurance plan(s) and is paying a monthly premium for coverage is eligible for the

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state health insurance credit upon retirement from the General Assembly. If the member is eligible for the health insurance credit based upon retirement from a school division or political subdivision, the employee is eligible for the applicable health insurance credit commencing with the first month of retirement from the non-General Assembly employer, provided the member is enrolled in a qualified health insurance plan(s) and paying a monthly premium. Only one employer will pay the health insurance credit and generally the member's last employer determines eligibility for the credit. When the General Assembly member later retires from the General Assembly, the health insurance credit will be adjusted to include the credit for the service earned as a General Assembly member.

ENROLLMENT

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

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

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

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AMOUNT OF THE HEALTH INSURANCE CREDIT

If a member has 15 years and 1 month of service, the service rounds up to 16 years. However, a member must have 15 full years of service to be eligible. A member with 14 years and 11 months of service cannot round up to 15 years to meet eligibility requirements.

To determine the health insurance credit amount, round the total creditable service up to the next full year and multiply by the dollar value in the following chart:

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

* Includes retirees from a state ORP or ARP.

** Includes nonprofessional employees (cafeteria workers, bus drivers, etc.) working in schools but employed by the local political subdivision rather than the local school board.

PAYMENT OF THE HEALTH INSURANCE CREDIT

When an eligible retiree has health insurance premiums deducted from the VRS monthly benefit payment, the health insurance credit reimbursement amount is paid as part of the monthly retirement benefit payment. The retiree does not need to submit a VRS-45 when VRS deducts health insurance premiums from the monthly retirement benefit payment unless he has health insurance coverage other than the coverage for which VRS is deducting premiums.

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

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

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

WORKING AFTER RETIREMENT

After retirement, a VRS retiree can work for any employer that does not participate in VRS and continue to receive retirement benefits. If the retiree returns to covered employment with a VRS-participating employer, the monthly defined benefit payment (whether VRS or ORP) will cease and he will again become an active member.

Covered employment is any full-time permanent position that provides VRS benefits. Some part-time permanent positions with state agencies and public colleges and universities also are covered under VRS. See the Membership Chapter of the Employer Manual for more information.

Note: An ORP retiree is required to stop distributions from the ORP. An ORP retiree must submit a Notice of Return to Covered Employment for ORP Retirees (VRS-7ORP) when he returns to work in a position covered under VRS, including an ORP or an ARP. The exception is an ORP participant who has purchased a lifetime annuity. Annuity payments will not stop if he returns to covered employment.

Non-covered employment with VRS-participating employers includes temporary, part-time hourly and adjunct faculty positions. Non-covered positions do not provide eligibility for benefits. Some

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permanent salaried part-time state positions are covered under VRS. In many cases, the retiree can accept non-covered employment with a VRS-participating employer and continue to receive retirement benefits.

To avoid overpayments, an employer should add a retiree returning to work into myVRS Navigator as soon as possible.

An employer who wishes to hire a retiree as a non-covered part-time employee should:

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

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

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

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

Each local school system and local government, including cities, counties, towns, commissions, authorities and other political subdivisions, is considered a separate employer.

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

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Upon leaving covered employment and retiring again, the retirement benefit will be calculated using the new retirement date and will include the additional service credit as well as any increase to the AFC. The retiree must select the same payout option that was chosen at the first retirement. Any COLA he earned prior to returning to covered employment is lost as are any retirement credits provided under the Workforce Transition Act and the Transitional Benefits Program.

FEDERAL GOVERNMENT REQUIREMENTS

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

Note: Non-covered employment is a part-time position with a VRS-participating employer. Non-covered positions do not provide eligibility for benefits. Part-time positions typically require less than 80 percent of the hours of comparable full-time permanent positions. Some full-time positions may be considered non-covered if they are temporary and require less than 80 percent of the hours per year that would be considered full-time and permanent for that position.

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

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

Example: If a contract period runs August 25, 2017 to June 14, 2018, the end date of this contract is June 14, 2018 but the months of July and August are considered summer months that do not count toward the break in service. The break-in-service month begins September 1, 2018, so the retiree may return to the same employer in a non-covered position no earlier than October 1, 2018.

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A retired teacher who selected an Early Retirement Incentive Program (ERIP) that requires the retiree to work a certain number of days during the upcoming contract year in a non-covered teaching position, will continue to receive VRS retirement benefits as long as he has a bona fide break of at least a full calendar month and continues meet the requirements of non-covered employment.

PENALTY FOR DISREGARDING BREAK-IN-SERVICE RULES

An employer who hires a retiree in a non-covered position must comply with regulations that govern bona fide break-in-service rules and other return-to-work requirements. In addition, the employer may not hire a retiree in a covered position while the employee continues to receive a retirement benefit. If an employer disregards the break-in-service rules or the rules governing the hours to be worked in a non-covered position by a retiree, the retiree's benefit will be adjusted going forward and VRS may collect the overpayments from the employer.

The break in service of one calendar month is required by VRS; however, the federal Affordable Care Act requires longer separation periods in some circumstances. A retiree should contact the potential employer's human resource office for more information before returning to work in a wage position.

CRITICAL TEACHING SHORTAGE

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

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

- Be fully licensed for the assignment;
- Teach or serve as a principal or assistant principal in a designated critical shortage area, as identified annually by the Department of Education (DOE);
- Have a bona fide break in service of at least 12 months following the effective date of retirement and not worked in any capacity for a VRS-participating employer, even on a part-time or volunteer basis during that period;
- Have not retired under a local school system's ERIP or other retirement program that provides benefits that enables the member to retire with an unreduced retirement benefit (Any period of work performed by the retiree to satisfy the requirements of an ERIP will extend the number of months required to satisfy the bona fide break in service to comply with this program);

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- Have not taken a refund of the retirement contributions and interest credited to his VRS account, deferred retirement or retired for disability.

The DOE designates critical shortage areas; however, school division superintendents and school boards may also designate a critical shortage position if there are three or fewer qualified applicants. Visit DOE's website at <http://www.doe.virginia.gov/teaching/index.shtml> to determine if a position is designated as critical shortage.

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

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

Note: These *Code of Virginia* provisions expire July 1, 2020.

EFFECTS ON OTHER BENEFITS

Re-employment may also affect the retiree's life insurance coverage. See the Group Life Insurance Chapter of the Employer Manual for more information.

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

A participant in the Commonwealth of Virginia 457 Deferred Compensation Plan or Virginia Cash Match Plan who returns to salaried or wage employment with an employer who offers these plans can continue plan distributions started during the period he was not employed. A participant may not initiate a distribution once he returns to employment, unless he has reached age 70½ and qualifies for an in-service distribution. A retiree returning to employment may resume contributions to his Commonwealth of Virginia 457 Deferred Compensation Plan, but may not be eligible for the Virginia Cash Match Plan unless he returns to salaried employment.

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GENERAL ASSEMBLY MEMBERS

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

The General Assembly member is eligible to participate in the State Retiree Health Benefits Program at retirement if he submits a DHRM Form T-20879 and takes an immediate annuity.

DEFERRING RETIREMENT

If a member leaves VRS-covered employment and is vested, he can defer receiving a retirement benefit until a later date (if he already meets age and service requirements) or wait until he reaches age and service requirements, provided he does not take a refund of his member contributions and interest. The member should complete a Name and Address Declaration for Deferred Members (VRS-3A) before leaving his position.

When the member applies for retirement, his benefit is calculated based on the creditable service and AFC at the time he left his position. The application can be backdated no more than 90 days from the date VRS receives the application if all of the following apply:

- The retirement date is on the first of the month;
- The retirement date is not before the member was last reported;
- The member is vested;
- The member meets age and service requirements.