

# VRS Defined Contribution Plans Q & A Employer Webinar – Leaving Employment?

## **General Questions**

### **Can an employee contribute the max to a 457b and a 401a plan?**

Employees do not contribute to a 401(a) plan. However, if the employee works for an employer that offers 403(b) plans in addition to the VRS 457 Plan they would be able to maximize contributions to both plans.

### **What will happen to the 401(a) account if the General Assembly decides to discontinue the catch match?**

If Cash Match contributions are suspended due to pending budget recommendations, existing balances will remain in the participant's Plan until the participant becomes eligible to request a distribution from the plan. The participant would still be able to manage the investment choices within the Plan and use the Plan to consolidate other retirement plans by using the incoming rollover feature.

### **When an employee reaches 70.5 yrs of age, what is the amount of the minimum distribution that they must take and will this amount be automatically sent to the employee?**

The amount of a participant's required minimum distribution is based on the participant's plan balance as of December 31 of the prior year and IRS universal life expectancy tables. The factors change each year as the participant becomes older.

Example:

Participant Age in distribution calendar year: 72

Spouse Age (beneficiary) in distribution calendar year: 61

Balance on valuation date preceding distribution calendar year: \$50,000

Joint Lifetime Table

Years: 26.3

Distribution Amount (Balance/Life Expectancy years):

\$1,901.14

Uniform Lifetime Table

Years: 25.6

Distribution Amount (Balance/Life Expectancy years):

\$1,953.13

### **Is that 100% true that an employee can only change the amount of their contribution on-line or on the phone?**

It is true that the vast majority of participants in the 457 Deferred Compensation Plan must request changes to their contribution amount either online or over the

telephone. However, there are a small number of participating agencies that do not allow their employees to do so.

Participants employed with one of these agencies that do not have online functionality would change to their contribution amount by completing a Payroll Authorization Form for Agencies without Online Functionality (available from the employer) and submit it to their payroll officer for processing. This form is not available online but can be obtained by contacting a Plan representative. Once processed the employer must send these forms to ING for inclusion in the participant's record.

## **Termination Pay**

### **Does the unused vacation and sick leave roll over at termination apply to political subdivisions?**

If it is the policy of the political subdivision or school division to pay the employee for unused sick or vacation time when the employee leaves employment, the amount is considered compensation and may be contributed to the 457 Plan.

### **Is the one-time deferral amount for termination pay included in the annual contribution limit?**

Yes, the termination pay counts toward the limit that applies in the year the contribution is paid into the participant's 457 Plan account.

The deferral of termination pay is subject to applicable contribution limits. For 2010, a participant can contribute up to \$16,500 and an additional \$5,500 if they are age 50 or older by the end of the calendar year.

Participants may also be eligible to utilize the Standard Catch-Up, which could potentially allow the participant to contribute up to \$33,000 for 2010. If you have a participants interested in utilizing this catch-up provision, they should contact a Plan Representative to complete the appropriate paperwork. The Standard Catch-Up forms are also available on the Web site at [www.varetire.org](http://www.varetire.org).

### **Can you elaborate about how an employee is allowed to defer termination pay until following the year for tax purposes? Does ING hold money or is there a process in place in which agencies hold money until the following year?**

Participants may contribute to their 457 Plan unused vacation and sick leave and other compensation paid to the employee at termination of employment. However, termination pay counts toward the contribution limit for the year in which it is paid into the participant's 457 Plan account.

457 Plan regulations state that termination pay must be contributed to the Plan by the end of the calendar year in which the participant's last day of employment occurred or within 2 ½ months after the participant's last day of employment if later. For example if the employee's last day of employment is October 25 he may request that the termination pay be contributed to the 457 Plan in January of the following year, which is within 2 and 1/2 months of his last day of employment. In this case, the contribution limits for the new year will apply.

If the agency allows a participant to delay this payment, it is the agency's responsibility to hold the payment until it is actually paid into the participant's account. If the process crosses calendar years, the agency must insure the payment into the Plan account occurs no later than 2 ½ months after the participant's last day of employment.

**If the one-time deferral form must be submitted one month prior to receiving the termination pay, the amount may not be accurate because the employee may choose to take vacation after the form was submitted - so the leave payout amount will be different at retirement.**

Participants should confer with their payroll office for an approximation of the termination pay amount. They may then indicate a dollar amount that takes into consideration any amount of leave they intend to use and the FICA tax and any other deductions that might apply. Or they if they wish to have the entire available payout amount contributed to the Plan they may state "Net" in the amount line. Participants may also specify whether they wish to contribute vacation pay, sick leave or other types of compensation available at termination.

## Distributions

**How long does it take to process a distribution once the form has been received?**

It depends on when the participant terminated employment and when the employer reports are received by VRS. The table below illustrates the earliest distribution approval date based on the participant's last reported pay date. An actual distribution can take place no earlier than approximately 10 days after the earliest distribution date.

Please refer to the following chart.

Employee's Last Payroll Date	Date Payroll Reported to VRS	Earliest Distribution Approval Date
Jan. 1 – Jan. 30	February 10th	March 10th
Feb. 1 – Feb. 28	March 10th	April 10th

Mar. 1 – Mar. 31	April 10th	May 10th
Apr. 1 – Apr. 30	May 10th	June 10th
May 1 – May 31	June 10th	July 10th
Jun. 1 – Jun. 30	July 10th	August 10th
Jul. 1 – Jul. 31	August 10th	September 10th
Aug. 1 – Aug. 31	September 10th	October 10th
Sept. 1 – Sept. 30	October 10th	November 10th
Oct. 1 – Oct. 31	November 10th	December 10th
Nov. 1 – Nov. 30	December 10th	January 10th
Dec. 1 – Dec. 31	January 10th	February 10th

**Did you say that there are no penalties for withdrawing money from a 457 plan as long as you terminate after age 55?**

**There is no early withdrawal penalty associated with the 457 Deferred Compensation Plan regardless of the participant’s age at the time of the withdrawal.** So, once a participant becomes eligible for a distribution from the Plan, he or she may withdrawal funds with no penalty regardless of age. This means a participant who leaves employment at age 35 may take a distribution from his 457 Plan account and pay no early retirement penalty. The amount withdrawn will be taxed as ordinary income.

The 401(a) Cash Match Plan, however, does have an early withdrawal penalty that may apply if the participant is eligible for and requests a distribution prior to age 59 ½. This penalty may be waived if the participant is age 55 or older during the year in which they separate employment.

For example, if a participant terminates employment in June of the year they reach age 55 the early withdrawal penalty would generally be waived on any distributions they request. However, if the participant terminates employment during the year they reach age 54, they would generally incur a 10% penalty on any distributions they take prior to reaching the age of 59 ½.

**What tax rate is used when taking a distribution?**

From most distributions, 20% will be withheld for Federal taxes and 4% for Virginia taxes, assuming that the participant resides within the Commonwealth of Virginia. If the participant resides in another state, state taxes will be withheld based on the requirements of that state.

If desired, participants can request to have additional taxes withheld.

**Is the distribution form rejected if the employee dates the form prior to ending termination even though the distribution date is for after termination?**

Participants should not submit a distribution form until after they have actually separated employment. The form will not be processed until VRS determines eligibility as described in an earlier answer.

**Is it correct that an employee who is leaving must submit a one time deferral form and a distribution form?**

No. A participant who is terminating employment is not required to submit any paperwork.

However, if the participant would like to defer his or her termination pay to the 457 Deferred Compensation Plan, the One-Time Deferral Form must be submitted before the participant's last day of employment and no later than the month prior to the month in which the termination pay will be paid out. The completed form should be submitted to the participant's payroll office for processing.

If the participant would like to request a distribution when he or she terminates employment, a distribution form can be submitted. This form should only be submitted after the participant has terminated employment and will not be processed until a break-in-service has been satisfied.

**If a former political subdivision employee is hired by a state agency is this considered a break in service?**

A break-in-service only occurs when it has been at least 30 days since the last date an employee was reported to VRS as having received compensation or active employee benefits by an agency that participates in the VRS 457 Plan. This includes both state agencies and political subdivisions.

For example, if a participant who works for a state agency terminates employment with that agency and goes directly to work for a political subdivision that participates in the 457 Plan, a break-in-service has not occurred and the employee would not be eligible to take a distribution.

If the employee wishes to continue contributions to the Plan, a Payroll Authorization – Agency Transfer Form must be given to the new employer.

**Is an employee eligible for the cash match while on VSDP-LTD working?**

Salaried state employees on Virginia Sickness and Disability Program – Long Term Disability Working are receiving some amount of compensation from their employer for services rendered. They may contribute the compensation paid by

their employer to the 457 Plan up to the applicable limit and would be eligible to receive Cash Match on those contributions.

## **Rollovers (including PLOP)**

**Will the PLOP option continue to be available or is it proposed to end in 2011?**

At this time there are no legislative proposals to discontinue the Partial Lump-sum Option Payment as a distribution choice for VRS retirees who are eligible.

**What if a participant's cash match isn't with the VRS 457 Plan? What if there cash match is with the 403 plan? Can they still roll that PLOP over?**

If the political subdivision or school division does not participate in the VRS 401(a) Cash Match Plan, the agency's employees do not have the option to roll funds (including PLOP rollovers) into it.

If the employee works for a state agency that offers both the Commonwealth's 457 Plan and a 403(b), the employee must be contributing to the 457 Plan in order for incoming rollovers (including PLOP) rollovers to go into the Virginia Cash Match Plan.

If the employee works for a school division that offers both the Commonwealth's 457 Plan and a 403(b) and has adopted the Virginia Cash Match Plan, the employee must be contributing to the 457 Plan in order for incoming rollovers (including PLOP) rollovers to go into the Virginia Cash Match Plan.

If the agency offers Cash Match through an outside 403(b) provider, employees may be able to roll funds (including PLOP rollovers) into it; if the agency sponsored cash match plan accepts that type of rollover.

**If an employee has a retirement account with a bank securities institution, can that be rolled into their 457 plan? (i.e. Bank of America Securities)**

No. The only type of account that can be rolled into the 457 Deferred Compensation Plan is another 457(b), which is a plan offered only by governmental employers.

However, the type of retirement account typically offered through a bank is an IRA. Traditional IRAs can be rolled into the 401(a) Cash Match Plan or one of the Optional Retirement Plans. Roth IRAs cannot be rolled into any of the VRS Defined Contribution Plans.

**If my spouse has an IRA or 401K plan and is self-employed, can I roll over one or both of his accounts into my 401a plan?**

No. Participants are only able to roll over balances from accounts that are in the participant's name.

**Can you rollover your 457 Plan and 401(a) Cash Match Plan accounts to a Roth IRA while you are still employed with the Commonwealth without a penalty?**

No. Active employees are not eligible to take a distribution, which includes rollovers, from the Plans, unless they are age 70 ½ or older.