

LEAVING EMPLOYMENT DEFERRED COMPENSATION AND CASH MATCH PLAN POINTERS

1. Maximizing Retirement Savings

- a. The 457 Plan Age 50 + Catch-up in 2010 is \$22,000.
- b. The 457 Plan Standard Catch-Up (SCU) permits additional contributions if the participant did not contribute the maximum allowed in the years he or she was eligible to participate. The SCU may be used in the three years prior to the Normal Retirement Age (NRA) selected by the participant. The earliest NRA is the year in which the participant's combination of age and service results in a unreduced retirement benefit. The SCU may not be used in the year the participant reaches age 70 ½. Participants eligible for the SCU in 2010 may contribute the regular limit of \$16,500 plus the Standard Catch-Up limit of \$16,500 for a total of \$33,000.00 or the combination of the regular limit and the participant's available catch-up credit, whichever is less.
- c. Participants may contribute to their 457 Plan unused vacation and sick leave and other compensation paid to the employee at termination of employment
 - i. The completed and signed Payroll Authorization One-Time Deferral form must be given to the employer while the participant is still employed and no later than the month prior to the month in which termination pay would otherwise be paid to the employee.
 - ii. Termination Pay counts toward the contribution limit for the year in which it is paid into the participant's Plan account.
 - iii. Employees whose last day of employment is October 25 or later may request that the termination pay be contributed to the Plan in January of the following year so the contribution limits for that year will apply.
- d. Rolling the VRS Partial Lump Sum Option Payment (PLOP) into a participant's Cash Match Plan is a choice for participants eligible to receive a portion of their VRS retirement benefit in a lump sum payment. In addition to providing ready access to the money in the rollover account, retirees defer taxes on the benefit until they begin to take a distribution of the money.

2. Consolidating Retirement Plans

- a. The 457 Deferred Compensation Plan accepts incoming rollover of pre-tax money from other 457(b) governmental deferred compensation plans.
- b. The Cash Match Plan accepts incoming rollovers from the following types of retirement savings plans: 401(a), 401(k), 403(b), 457(b), Traditional IRAs and the Federal Thrift Savings Plan.

3. Managing Return to Work

- a. Employees who return to work in either a salaried or wage position may resume contributing to the 457 Plan. Only salaried employees are eligible for the cash match.
- b. Employees who return to work must satisfy a break in service and receive any requested distribution prior to returning to either salaried or wage employment with an employer that offers the Plan.
- c. A distribution request cannot be initiated while a participant is employed with an employer that offers the Plan.
- d. The exception is participants who are age 70 ½ or older who may take an in-service distribution even while employed by an employer that offers the Plan.
- e. Participants may take distributions from their rollover accounts within the Plans regardless of their employment status. Those for whom the early retirement penalty is not an issue


may consider rolling distributions from their 457 Plan account into their Cash Match Plan rollover account.

4. Eligibility for Distribution from the Plans

- a. Generally, a participant is not eligible to take a distribution from the Plan until he or she leaves employment with the employer that offers the plan and satisfies a break in service of at least one month from the time he is last reported to VRS by his employer.
- b. Participants who have reached age 70 ½ and who continue to work for an employer that offers the plan are allowed to take an in-service distribution.
- c. State employees receiving WTA benefits are eligible to request a distribution unless they become employed by another employer that offers the Plan.

5. Timing of Distributions

The following chart shows the timing for VRS to verify the Internal Revenue Service requirement for a break in service, once a participant submits a request for distribution.

Distribution Timing		
Employee's Last Payroll Date	Date Payroll Reported to VRS	Earliest Distribution Approval Date
Jan. 1 – Jan. 30	February 10 th	March 10 th
Feb. 1 – Feb. 28	March 10 th	April 10 th
Mar. 1 – Mar. 31	April 10 th	May 10 th
Apr. 1 – Apr. 30	May 10 th	June 10 th
May 1 – May 31	June 10 th	July 10 th
Jun. 1 – Jun. 30	July 10 th	August 10 th
Jul. 1 – Jul. 31	August 10 th	September 10 th
Aug. 1 – Aug. 31	September 10 th	October 10 th
Sept. 1 – Sept. 30	October 10 th	November 10 th
Oct. 1 – Oct. 31	November 10 th	December 10 th
Nov. 1 – Nov. 30	December 10 th	January 10 th
Dec. 1 – Dec. 31	January 10 th	February 10 th

6. Taxation of Distributions

- a. Taxes on contributions and earnings are deferred until the participant withdraws the money from the plans.
- b. Distributions from the plans are taxed as ordinary income.
- c. Both state and federal income tax are withheld on any distribution amount that is eligible to be rolled over to another plan but that is paid directly to the participant.
- d. If all or a portion of the account balance is rolled to a Roth IRA, the entire rollover amount is taxable in the year the rollover occurs.

7. Early Withdrawal Penalty

- a. There is never an early withdrawal penalty on distributions from the 457 Plan account regardless of the participant's age at the time of the distribution.
- b. There is a 10% early withdrawal penalty on distributions from the 401(a) plan if the participant is younger than age 59 ½ at the time the distribution begins.

- c. The early withdrawal penalty is waived if the participant left employment after reaching age 55.
- d. The 10% early withdrawal penalty is waived if the participant set up periodic payments to be paid at least annually in equal or close to equal amount over his or her life expectancy.
- e. The early withdrawal penalty is also waived if the participant retired due to a disability.
- f. Participants may time distributions to avoid penalty: take distributions from 457 Plan prior to age 59 ½; begin distributions from Cash Match or other 401(a) plans once age 59 ½ is attained.

8. Required Minimum Distribution (RMD)

- a. Participants must begin a distribution from their plans the later of the year they reach age 70 ½ or the year they terminate employment with the employer that offers the plan.
- b. In the first year the minimum distribution is required that is a grace period to March 31 of the following year. If the grace period is used the participants is required to take two minimum distributions in that year.
- c. The required minimum distribution amounts cannot be rolled over to another plan.
- d. The RMD is required from each plan. Taking a RMD from one plan does not satisfy the requirement for other plans.

9. Distribution Options

- a. Full Lump Sum Distribution
- b. Partial Lump Sum Distribution
- c. Periodic Payments (Monthly, Quarterly, Semi-annually or Annually)
- d. Partial Lump Sum Distribution combined with Periodic Payments
- e. Rollover to another plan or IRA including a Roth IRA
- f. Purchase of an Annuity with all or a portion of the account balance.