

VRS Defined Contribution Plans Q & A

Optional Retirement Plan for Political Appointees Employer Webinar

1. Will a recorded version of this webinar be available on your website?

No, but a PDF version of the presentation will be available, as well as the questions received from attendees.

2. What happens to money in the deferred compensation account when an employee dies?

The participant should have completed a beneficiary election form or updated beneficiary information on the Web to indicate who they would like to receive the money in their plan should they pass. If there are no beneficiaries named on an account, the account balance is paid out according to the following order of precedence:

- The participant's surviving spouse, or
- if none, his children and descendants of his deceased children, per stirpes, or
- if none, his parents, equally if both living, or
- if none, the duly appointed executor or administrator of his estate, or
- if none, the next of kin is entitled to inherit under the laws of his domicile at the time of his death.

3. You mentioned different guidelines between 457 and IRAs. Since this comes up frequently, would you elaborate on those differences?

The primary difference between a 457 Deferred Compensation Plan and a traditional IRA is the 457 Plan does not have an early withdrawal penalty, regardless of the participant's age when he takes money out of the Plan. Distributions from an IRA taken prior to reaching age 59 ½ will typically incur an early withdrawal penalty of 10%.

Except for limited situations when an in-service distribution is permitted, the 457 Deferred Compensation Plan requires that a participant terminate employment and experience a break-in-service to be eligible to take a distribution. Eligibility for distribution from an IRA is not tied to employment status.

Additionally, there are differences in the fee structure of the Plans. Plan-related fees and investment-related fees can vary dramatically between different IRA providers and are typically higher than those in the 457 plan.

Participants should be encouraged to do research on their own before making decisions regarding rollovers between different types of plans. Registered

Representatives with the VRS Defined Contribution Plans are available to assist with this.

4. I thought Kelvin mentioned that if a due date was missed, the employee was automatically enrolled in the VRS plan but then I heard him say they would be automatically enrolled in the VRS retirement plan. If the appointee misses the 30 day due date, aren't they automatically enrolled in the VRS retirement account and not the ORP?

If an ORPPA-eligible member fails to elect the ORPPA by the specified deadline, he will be covered by the VRS defined benefit plan.

5. Can you clarify if a person can purchase prior service with ORP?

Because the ORPPA is a defined contribution plan a participant may not “purchase service” in the Plan. Basically, a defined contribution plan account is a pot of money from which a retiree draws income during his retirement. The account contains the contributions made by the employer adjusted for gains, losses and fees. The ORPPA account balance can be increased by rolling in account balances from other plans.

VRS, which is a defined benefit plan, allows the purchase of certain types of service to create a larger retirement benefit. An ORPPA participant would be eligible to purchase the time served in the ORPPA position only if the employee moves directly to a state position not eligible for the ORPPA with no break in service. The ORPPA account balance can be used to purchase the time under the following conditions:

- The employee has continuous employment with the state.
- The purchase of the ORPPA time is at actuarial cost as calculated by VRS.
- Only the period of ORPPA service can be purchased, using money from the Plan.
- If the funds in the ORPPA account are not sufficient to cover the cost to purchase, the participant may use personal funds to supplement the purchase.
- If the cost to purchase is less than ORPPA account any remaining balance is forfeited.

6. During the Optional Life Insurance section, you mentioned that you had to have the Optional Life Insurance for 6 months prior to retirement to continue it. Is that different than other members? I thought you had to have it for 5 years prior to retirement. Is that ORP only?

The requirement is actually the same for VRS and ORPPA members; 60 months (or 5 years).