

FACTSHEET

Trustee-to-Trustee Transfers for Purchase of Prior Service

The defined benefit pension plan, which your employer provides for you through VRS, is the backbone of retirement for most public employees. However, many employees build on this foundation by also participating in voluntary tax-deferred savings plans. These plans include 457(b) plans for government employees (the plan for Commonwealth of Virginia employees is called the Deferred Compensation Plan); and 403(b) plans, known as tax-sheltered annuities, which are available through Virginia colleges and universities and public school divisions. Some political subdivisions participating in VRS have their own 457(b) plans and some participate in the VRS Deferred Compensation Plan.

Historically, these plans have operated under different tax rules – in fact, the numbers 457(b) and

403(b) refer to the different tax code sections that govern each type of plan. Different contribution limits, different distribution rules, and different administrative requirements for each of these plans have restricted participation and prevented transfers between plans. But the Economic Growth and Tax Reconciliation Relief Act changes many of these limitations. Beginning January 1, 2002, this new law will create many tax changes, including increased contribution limits and catch-up provisions, a tax credit and increased portability among plans.

The new law means good news to VRS members who are eligible to purchase additional service credit, as they may now use money from their 457(b) or 403(b) plans to purchase the service.

Requirements for an In-Service Trustee-to-Trustee Transfer

Moving money from a 457(b) or 403(b) plan is referred to as an “In-Service Trustee to Trustee Transfer.” There are two requirements you must meet in order to make such a transfer to purchase service credit:

- ▣ Your plan must allow in-service Trustee-to-Trustee Transfers. (The Commonwealth of Virginia’s Deferred Compensation Plan permits such transfers. You should contact your plan administrator to determine if in-service Trustee to Trustee transfers are allowed by your 457(b) plan if you participate in a plan other than the Commonwealth of Virginia’s Deferred Compensation Plan.)
- ▣ The transfer must be limited to the cost to purchase service for which you are eligible. If there is an overpayment, any additional funds will be returned to your transferring plan on your behalf.

Procedure for Trustee-to-Trustee Transfers

If you wish to purchase prior service credit using an in-service Trustee-to-Trustee Transfer, first you need to fill out a form VRS-26 and send it to VRS to establish your eligibility to buy the service. VRS will send you a cost letter notifying you of the amount of service credit you are eligible to buy, the cost of the purchase and a description of the payment options available, including in-service Trustee-to-Trustee Transfers.

Once you receive this information, you need to fill out a “Transfer Request for the Purchase of Permissible Service Credits,” also known as the VRS-26g.

Provide all the information in the Member Certification section of the form and forward it to your deferred compensation or 403(b) plan administrator from which the funds will be transferred. You need to

the form and send the completed form along with the money being transferred via check or wire to VRS. Checks must be made payable to the Virginia Retirement System.

Because tax-deferred savings plans are subject to investment performance, it may not be possible to predict how much you will have in your account on the date the form is processed. If your account does not contain enough money to purchase the service, VRS will send you a letter advising you of the additional amount needed. You will have 30 days to pay the additional amount. If payment is not received within 30 days of the date of the letter, VRS will credit you with as much service as the amount in your account will allow. If the amount received from your plan exceeds the amount of the purchase, the additional amount will be returned to your transferring plan on your behalf.

From form VRS-26g

8. Months to Purchase	Enter the number of months you plan to purchase with this transfer.
9. Cost Per month	Enter the cost per month of the service you wish to purchase from your Cost Letter.
10. Amount to be transferred from financial institution	Multiply the months you wish to purchase by the cost per month. Enter only the amount of payment transferred with this form.

include the number of months you wish to purchase, the cost per month and the total amount you want transferred to cover the cost. (This information is included in the cost letter VRS sends to you. See graphic inset above for closeup detail of this form.)

The designated representative of your provider plan should complete the Trustee Certification section of

Tax Consequences of In-Service Trustee to Trustee Transfers

Any funds transferred to VRS will retain their tax-deferred status until paid from VRS as a refund or monthly annuity. The transferred funds will have the same tax liabilities as the VRS plan. Therefore, if you take a refund from VRS at a later date and do not roll the money into another plan, VRS will withhold 20% federal tax and 4% state tax (if a Virginia resident) on the taxable portion of the refund. In addition, you may be subject to a 10% penalty if you are under age 59 ½ at the time of the refund.

Steps to Follow in Applying for a Trustee- to-Trustee Transfer:

1. Fill out a VRS-26 (Request for Purchase of Prior Service Credit). Send it to your former employer to certify.
2. Review the cost letter VRS will send to you and the payment option information sheet.

Some Things to Consider

Unlike 457(b) plans and 403(b) plans, which are sometimes referred to as defined *contribution* plans, VRS is a defined *benefit* plan. That means that the amount of the benefit you receive at retirement is determined using a formula that takes into consideration your years of service, your average final salary, and your age at retirement. The benefit is guaranteed by law and is not dependent on investment performance.

Under the VRS defined benefit plan, VRS assumes all risk for future investment performance of the fund and the participant has no investment choices to make; however, the benefit provided under the VRS defined benefit plan is guaranteed for life and can be extended to a survivor after your death.

Defined contribution plans, on the other hand, depend on contributions and investment results, and can go up or down, depending on how the market performs. Under a defined contribution plan, the participant selects the investment options and carries all the investment risk associated with the choices made.

Even if you transfer money from your defined contribution plan to VRS, you can still contribute to your 457(b) or 403(b) plan and continue to take advantage of the Employer Match Program for Deferred Compensation Plan participants. The new law offers you a tremendous opportunity to maximize your VRS benefit while continuing to participate in tax-deferred savings plans.



Frequently Asked Questions

Q. How long will it take to process my request?

A. The time to process a Trustee-to-Trustee transfer can take longer than purchases using other payment methods because it requires certification and transfer of funds from another financial institution. Your current trustee may have additional requirements that could delay the release of the assets. Therefore, if you are planning to retire soon and want to use this form of payment to purchase service, it is very important that you initiate the process as soon as possible. The transfer must be completed prior to your retirement date.

Q. Is it better to use my Deferred Compensation Plan money or tax-deferred annuity to purchase prior service credit, or is it better to purchase the service in another way?

A. Individual circumstances differ. VRS cannot provide advice to members concerning investments or personal financial planning. It is best to consult

(continued on back page)

3

Fill out a form VRS-26g ("Transfer Request for the Purchase of Permissible Service Credits"). Include the number of months you wish to purchase, the cost per month and total amount to be transferred (found on the cost letter VRS sent to you).

4

Send the form to your transferring plan provider. Your transferring plan must complete the Trustee Certification Section of the form and forward the form along with the money to VRS.



... Frequently Asked Questions

(continued from previous page)

Want more information about purchasing service? Check out the section on Purchase of Prior Service on the VRS Web site: www.state.va.us/vrs/PPS/PPS.htm
If you'd like more info about the Virginia Deferred Compensation Plan, explore www.vadcp.com.
Any other questions you might have should be referred to your Benefits Administrator.

your personal tax advisor or qualified investment counselor prior to making the decision to purchase prior service using tax-deferred savings.

Q. If I use my funds to purchase service in VRS, can I still participate in my Deferred Compensation Plan or tax-sheltered annuity?

A. Yes. You may continue to contribute to your Deferred Compensation Plan or tax-sheltered annuity even if you use money from the plan to purchase service in VRS.

Q. Will I receive a confirmation notice in the mail?

A. Yes. Once the money has been received from your transferring plan, VRS will send you a letter advising you of the dollars received and the amount of service credit posted to your record.

Q. When will my 457 plan or 403(b) plan transfer the money?

A. While VRS asks for the transferring plan to complete the transfer within 30 days, individual institutions may vary. Contact your transferring plan, not VRS, to determine the status of your application.

Q. What if there isn't enough money in my plan to purchase the service at the time the money is transferred to VRS?

A. If your Trustee-to-Trustee transfer doesn't contain enough money to purchase the service, a letter will be sent to you advising you of the additional amount needed. If your payment is not received within 30 days of the date of the letter, VRS will credit you with as many months of service as the transferred amount will buy. Any money left over after purchasing this service will be returned to your transferring plan on your behalf.

Q. What if there is an overpayment?

A. Any money over the amount needed for the purchase will be returned to your transferring plan to be credited to your account.

Q. What if I use my money to purchase service, but I take a refund before reaching retirement age? What are the tax consequences?

A. The money transferred to VRS from your 457(b) or 403(b) plan is subject to the same tax distribution rules as VRS plan money. That means if you take a refund instead of your annuity benefit, the entire taxable amount in your account will be subject to 20 percent federal and 4 percent state income tax withholding, as well as the 10 percent early withdrawal penalties if withdrawn prior to age 59 1/2.

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