
Your Benefits as a Member

As a VRS member, you have benefits that are important to the financial well being of you and your family. These benefits include retirement, disability and survivor benefits.

If your employer participates, you are also covered under the Group Life Insurance Plan. You may purchase additional life insurance coverage under the Optional Life Insurance Plan for yourself, your spouse and dependent children.

If you become permanently disabled, you may be eligible for disability retirement benefits. State employees may be eligible for short-term and long-term disability benefits under the Virginia Sickness and Disability Program (VSDP). Details of each of these benefit plans, eligibility requirements and your responsibilities as a member are described in this handbook and in the *VSDP Handbook*.



Retirement Benefits

Each month that you work, you earn service credit that counts towards a benefit when you reach retirement age. As a VRS member, you will receive a monthly retirement benefit for life, provided you meet the age and eligibility requirements described in this handbook. Your retirement plan also provides benefits for your survivor after your death.

Defined Benefit Plan

VRS is a defined benefit plan. This means that your retirement benefit is determined by a formula and is not based on the accumulated contributions in your account. The formula amount depends on your age at retirement, your average final compensation, and your years of service. Your average final compensation is the average of your 36 consecutive months of highest salary, not including any overtime or temporary pay or pay for extra duties.

Service Credit

Your total service credit is one of the factors in the formula used to determine your benefit when you retire. You are credited with one month of service for each month you make a contribution (or your employer makes a contribution on your behalf) to VRS. Educators are credited with 12 months of service for each full contract year completed.

Vesting

You become vested when you accumulate five years of credited service. As a vested member, you are eligible to receive a reduced retirement benefit from VRS at age 55 with at least five years of service. You can receive a reduced benefit as early as age 50 if you have 10 years of service credit.

If you leave your job after you are vested and do not take a refund, you retain your right to a future benefit when you reach retirement age.

Member Contributions

VRS is funded by contributions from employers and members. The member contribution is 5 percent of your creditable compensation. Creditable compensation is your annual salary, not including any overtime pay, payments of a temporary nature, or payments for extra duties, such as pay to teachers for coaching, advising special activities and other payments not included in contracts. Many employers pay the member contribution for their employees. Member contributions are refunded to members who take a refund at termination of employment.

Employer Contributions

Covered employers pay an additional amount (called the employer contribution) based on their total payroll for active members at a rate recommended by the VRS actuary and approved by the General Assembly. Both member and employer contributions are invested to provide future benefits. Employer contributions are not credited to the member account and are not payable to the member through a refund.

Interest

Your account (which is the 5 percent member contribution amount) earns 4 percent interest, compounded on June 30 of each year on contributions that have been in the system for at least 12 months. The amount of contributions and interest in your account does not affect your benefit at retirement, because the amount of your benefit is based on your age at retirement, average final compensation and years of service credit.

Member Benefit Profile

Each year, you receive a *Member Benefit Profile*. This personalized benefits statement, prepared by VRS and given to you by your employer, shows the amount of service credit you have and the total contributions and interest in your account. It also includes information about group life insurance, optional life insurance and projected retirement benefits. VRS mails the statements to employers soon after the close of the fiscal year.

Borrowing Prohibited

The *Code of Virginia* prohibits borrowing from your VRS member contribution account.

Mandatory Distribution of Benefits

If you become a member in deferred benefit status and you have not chosen a retirement option by age 70¹/₂, by law your retirement benefit must be paid to you. If you do not request otherwise, it is paid as a basic benefit.

Purchasing Prior Service Credit

You may be able to increase your benefit by purchasing prior service credit. Prior service is a period of service that has not been credited to your VRS service record because it was not covered by VRS, or it was covered service for which you previously took a refund.

You may pay for the service through a combination of a lump-sum payment and payroll deduction. Remember payroll deduction can be used only if the service credit can be purchased at the 5 percent rate. If you have four years of service credit available for purchase, for example, and you wish to retire in two years, you may buy two years in a lump sum and pay for the remaining months through payroll deduction.

Service Retirement

As a VRS member, you are eligible for a retirement benefit for life, provided you meet the age and eligibility requirements.

Eligibility for Unreduced Benefits

You are eligible to retire with unreduced benefits at age 65 (normal retirement age) with at least five years of service, or as early as age 50 if you have at least 30 years of service (applies to state employees, teachers and most political subdivision employees).

Some political subdivisions require age 55 with 30 years of service, or age 60 with 30 years of service for an unreduced benefit. Other employers allow members to retire after age 55 when the sum of age and service is 90. Check with your benefits administrator for special provisions that might affect you.

How to Calculate Your Unreduced Retirement Benefit

The formula for calculating service retirement benefits is 1.7 percent of your average final compensation (AFC), multiplied by the number of years of your creditable service. This benefit is actuarially reduced if you do not meet age and service requirements for a full benefit.

Example: The example below shows the benefit calculation for a member with an average final compensation (AFC) of \$31,000 at age 65, and a total of 18 years of service credit. Use the space at the right to figure your own benefit.

| | Example | Insert Your Numbers |
|--|---|-------------------------------------|
| 1. Add your 36 consecutive months of highest salary. | \$30,000 \$31,000 <u>\$32,000</u> \$93,000 | 1. _____ _____ _____ _____ |
| 2. Divide by three to get your Average Final Compensation (AFC). | $\$93,000 \div 3 = \$31,000$ | 2. _____ |
| 3. Multiply the result of Step 2 by .017. | $\$31,000 \times .017 = \527.00 | 3. _____ |
| 4. Multiply the result of Step 3 by total years of service. This is your annual benefit amount. | $\$527.00 \times 18 = \$9,486.00$ | 4. _____ |
| 5. Divide the result of Step 4 by 12 to get your monthly benefit amount. | $\$9,486.00 \div 12 = \790.50 | 5. _____ |

Note: This example assumes normal retirement (age 65) with an unreduced benefit. In cases of early retirement, the benefit would be reduced.

The Internal Revenue Code Section 401(a)(17) specifies that creditable compensation may not exceed the compensation limit for the plan year in which the compensation was earned. If your membership date was before April 9, 1996 and your creditable compensation is \$315,000 per year or more, see your benefits administrator for help in calculating your benefit estimate. If your membership date is on or after April 9, 1996 and your creditable compensation is \$210,000 per year or more, see your benefits administrator for help in calculating your benefit estimate.

Amount of Benefit

The amount of your service retirement benefit is based on your average final compensation (average of your 36 consecutive months of highest creditable compensation), your years of creditable service, and your age at retirement.

Eligibility for Reduced Benefits

You may retire at age 55 with a reduced benefit if you have at least five years of service credit but less than 30 years. If you take early retirement with a reduced benefit, the amount of the reduction in your monthly benefit depends on your age and years of service credit. A one-half percent reduction is applied for the first 60 months, and four-tenths of one percent for any additional months you are short of meeting age or service requirements for unreduced benefits.

Example: If you retire at age 55 with 27 years of service, you are 36 months (three years) from the 30-year requirement for unreduced benefits and 10 years from meeting the age requirements. Because you are closer to meeting the service requirement, the reduction is based on service. A one-half percent reduction is applied for each month you are short of meeting the 30-year requirement. The reduction is 18 percent (36×0.5 percent = 18 percent). You receive 82 percent of the unreduced benefit.

How to Calculate Your Reduced Early Retirement Benefit

(Fewer than 30 years of service and between age 55 and age 65)

The formula for calculating service retirement benefits is 1.7 percent of average final compensation (AFC), multiplied by number of years of creditable service, then multiplied by the early retirement reduction factor. (See the early retirement reduction factors in the Appendix, page 58.)

Example: The example below shows the benefit calculation for a member age 57 years and two months with an average final compensation (AFC) of \$31,000 and a total of 18 years of service credit. Use the space at the right to calculate your own benefit.

| | Example | Insert Your Numbers |
|---|---|-------------------------------------|
| 1. Add your 36 consecutive months of highest salary. | \$30,000 \$31,000 <u>\$32,000</u> \$93,000 | 1. _____ _____ _____ _____ |
| 2. Divide by three to get your Average Final Compensation (AFC). | $\$93,000 \div 3 = \$31,000$ | 2. _____ |
| 3. Multiply the result of Step 2 by .017. | $\$31,000 \times .017 = \527.00 | 3. _____ |
| 4. Multiply the result of Step 3 by total years of service. This is your annual benefit amount. | $\$527.00 \times 18 = \$9,486.00$ | 4. _____ |
| 5. Divide the result of Step 4 by 12. to get your monthly benefit amount. | $\$9,486.00 \div 12 = \790.50 | 5. _____ |
| 6. Multiply the result of Step 5 by ERF. (see Appendix, page 58) | $\$790.50 \times .564 = \445.84 | 6. _____ |

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50/10 Early Reduced Retirement

You may retire as early as age 50 if you have at least 10 years of service but fewer than 30 years of service. Under the 50/10 plan, your benefit is lower than what it would be if you wait until age 55 to retire. If you choose to retire under the 50/10 plan, your benefit at retirement is the higher of:

- an amount determined as though you are age 55 (but using your actual service credit and average final compensation), reduced by six-tenths percent for each month you are younger than age 55; or
- the actuarially calculated present value of the contributions and interest in your account, paid out in monthly payments over your lifetime.

Your benefits administrator can help you determine the amount of reduction to your benefit if you take early retirement.

How to Calculate Your Reduced Early Retirement Benefit Under 50/10

The formula for calculating service retirement benefits is 1.7 percent of average final compensation (AFC), multiplied by number of years of creditable service, then multiplied by the early retirement reduction factor (see p.58), then multiplied by the appropriate 50/10 factor (See the 50/10 early retirement reduction factors in the Appendix, p. 59)

Example: The example below shows the benefit calculation for a member with an average final compensation (AFC) of \$31,000 and a total of 18 years of service credit. Use the space at the right to calculate your own benefit. The member is age 52 years and seven months (date of birth is not on the first day of the month).

| | Example | Insert Your Numbers |
|--|---|-------------------------------------|
| 1. Add your 36 consecutive months of highest salary. | \$30,000 \$31,000 <u>\$32,000</u> \$93,000 | 1. _____ _____ _____ _____ |
| 2. Divide by three to get your Average Final Compensation (AFC). | $\$93,000 \div 3 = \$31,000$ | 2. _____ |
| 3. Multiply the result of Step 2 by .017. | $\$31,000 \times .017 = \527.00 | 3. _____ |
| 4. Multiply the result of Step 3 by total years of service. | $\$527.00 \times 18 = \$9,486.00$ | 4. _____ |
| 5. Divide the result of Step 4 by 12. | $\$9,486.00 \div 12 = \790.50 | 5. _____ |
| 6. Multiply the result of Step 5 by ERF of .464* (see Appendix p. 58). | $\$790.50 \times .464 = \366.79 | 6. _____ |
| 7. Multiply the result of Step 6 by 50/10 factor of .826. | $\$366.79 \times .826 = \302.97 | 7. _____ |

(See Appendix, p. 59) to get your monthly basic benefit amount.

* The ERF .464 is used when the member's age is less than 55 and service is less than 20 years. If service is over 20 years, use the ERF for service.

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Benefit Payout Choices Available To You When You Retire

You have several choices for how your retirement benefit payment is paid to you. You may choose the Basic Benefit or a survivor option that continues the benefit after your death to the person you designate to receive it. This person is called your contingent annuitant.

Be careful when choosing a retirement payout method. In most cases you may not change your retirement payout method after the date of your retirement.



Basic Benefit

The Basic Benefit (the calculations shown in the preceding examples on pages 12-14) is the amount you receive based on your average final compensation, your years of service and your age at retirement. It is a lifetime benefit and will continue until your death. If you die before the amount credited to your member account has been paid to you, the remaining funds are paid in a lump sum to your designated beneficiary. If you select the Basic Benefit, you cannot change this option after your effective date of retirement.

Survivor Option

You may choose to receive a benefit amount lower than the Basic Benefit during your lifetime in order to provide a benefit to a person you select (called your contingent annuitant) at your death. Your contingent annuitant may be your spouse or any other individual. Internal Revenue Service (IRS) regulations, however, limit the percentage of your benefit payable to a contingent annuitant who is not your spouse.

You may choose any whole percentage of your monthly benefit to be paid to your contingent annuitant after your death, from 10 percent to 100 percent. During your lifetime, your monthly benefit is reduced from the basic benefit depending on the percentage you chose for your survivor benefit, on your age, and on the age of your contingent annuitant at the time of your retirement. When you die, your contingent annuitant receives a monthly amount that is a percentage of the benefit you were receiving at the time of your death. This benefit continues to your contingent annuitant for life.

If the age difference between you and your non-spouse contingent annuitant is 11 years or more, your contingent annuitant is not eligible for a 100% survivor option, but is eligible for a lesser percentage as a survivor benefit. The greater the age difference between you and your non-spouse contingent annuitant, the lesser the amount of the benefit he or she can receive. See the chart in the Appendix on page 63.