

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Defined Benefit/Defined Contribution Retirement Plans Questions and Answers upon Termination of Employment

The following Questions and Answers have been developed to provide you with a basic understanding of how your termination from exempt employment with the State of Vermont impacts your retirement benefits through the State of Vermont. If you have any questions regarding the following information, or if you have additional questions that have not been addressed, please contact the Retirement Office at 828-2305 (within the central Vermont area) or 1-800-642-3191 (toll-free).

Q. What are my options if I have less than 5 years of service at the time of my termination?

A. If you are in the Defined Benefit (DB) plan, you may allow your account to remain inactive for up to three years before you will be required to receive a refund of your account balance. During this three-year period, should you return to State service in Vermont your account will begin to accrue service again. If you become employed in a position that would qualify you for either the Vermont Municipal Employees' Retirement System (VMERS) or the Vermont State Teachers' Retirement System (VSTRS), you could then transfer your accrued service in the State system to the new system without a loss of the accrued service. In lieu of waiting the three year allowable absence period, you may at any time opt to receive a full refund of your account balance with the understanding your accrued service will be lost as a result. The money in your account may be rolled over to another tax sheltered account if you wish to avoid immediate liability for tax withholdings.

If you are in the Defined Contribution (DC) plan, you have immediate access to the money in your account at Fidelity, including your employer's contribution if you have over 1 year and 11 months of service. If you have less than 1 year and 11 months, you are not entitled to the employer's contributions. You may take a partial or full withdrawal at any time, with the understanding the full amount of the withdrawal will be subject to federal and state taxes, plus you may be liable

for an additional 10% early withdrawal penalty if you are not 55 or older at the time of termination. As an alternative, you may leave the money invested at Fidelity, or you may roll it over to another tax sheltered investment vehicle. Minimum distributions must begin at 70 ½ if there you still have money on deposit in any type of tax-sheltered investment account.

Q. I have more than 5 years of creditable service in my retirement account; what are my options upon termination?

A. If you are a DB member, you are considered vested and eligible to receive a monthly benefit upon attainment of eligibility for normal retirement. Your benefit will be based on your total years of creditable service at the time of termination. Normal retirement age is 62 or upon attainment of 30 years of service if you became a member of the system on or before June 30, 2008. If you became a member of the system on or after July 1, 2008, normal retirement is age 65 or when your total years and age equal 87. If you are 55 or older at the time of termination, you may elect to receive your monthly retirement benefit immediately, although an early retirement penalty (reduction) will be applied if you are not eligible for a normal retirement. In lieu of waiting until you are eligible to draw your vested benefit, you may elect to receive a full refund of your contribution balance with the understanding you will forfeit all rights to a future monthly retirement benefit as a result.

If you are a DC member, you have immediate access to your entire account balance, which includes both the employee and employer contributions with accumulated investment earnings. You may leave the money invested at Fidelity, withdraw a portion or all of the balance at any time, or roll it over into another type of tax-sheltered account or an IRA. Keep in mind that whenever you elect to receive monies out of this or any other tax-sheltered account, it is subject to federal and state taxation, plus may be subject to an additional 10% early withdrawal penalty if you are not already 55 at the time of your termination from State employment. If you allow your money to remain at Fidelity and become an exempt state employee again, you will simply resume contributions into your DC account.

Q. I am currently carrying medical and dental insurance as a result of my active employment with the State. What happens to these coverages when I terminate employment?

- A. Under the federal law referred to as COBRA, you may elect to continue these coverages for an additional 18 months after termination of employment, regardless of your age. Under COBRA, however, you would be responsible for paying the entire premium for your coverage(s). The Department of Human Resources will provide you with the COBRA information and forms upon your separation from service.

If you are a member of the DB plan, and meet one of the eligibility requirements to begin your month retirement benefit (see previous Q & A), you may continue to carry both your medical and/or dental coverages into retirement. The amount of your premiums would be contingent on the plan you elect and your years of accrued service at the time of retirement. If you fall into this category, you are strongly encouraged to contact the Retirement Office and discuss your options with a Retirement Specialist.

If you are a member of the DC plan and are 55 or older and have a minimum of five years of service when you terminate employment, you may continue to carry your medical and dental plans by paying premiums directly to the Retirement Office. *You do not have to access the money in your Fidelity account to continue the medical and dental coverages.* As in the DB plan, the amount of your premiums would be contingent on the plan you elect and your years of accrued service at the time of retirement. You should contact the Retirement Office immediately if you fall into this category and wish to continue coverage(s).

Q. What happens to my life insurance coverage upon termination of employment?

- A. If you are in the DB plan and have 20 or more years of State service, your life insurance policy will automatically be reduced to \$10,000 with no further premiums due, providing you are eligible and begin to draw your retirement benefit immediately.

If you are in the DC plan, you must have a minimum of 20 years of creditable service and be at least age 55 or older to be eligible for the \$10,000 life insurance policy.

Regardless of the retirement plan you participate in, you may convert some or all of the life insurance coverage you carry as an active employee by paying the

appropriate premiums directly to Minnesota Life. The Department of Human Resources will provide you with more information about conversion options at the time of your termination.

Q. I elected to participate in the DC plan when I was originally hired as an exempt employee. What happens if I become employed by the State into another exempt position? A classified position?

A. Assuming you have not withdrawn or transferred your money out of your DC account at Fidelity, if you are re-employed in another exempt position, you will remain in the DC plan. If you return as a classified employee, you will be sent a package from the Retirement Office outlining your options to either remain in the DC plan or transfer to the DB plan. If you elect to remain in the DC plan, you will resume making contributions to Fidelity each pay period as before your termination. If you elect to transfer to the DB plan, a new account will be established and you will begin accruing creditable service as a DB member. The money in your Fidelity DC account will be transferred over to your new DB plan and will be used to purchase prior service accrued under your DC plan. *It is very important to understand under this scenario that the total amount of your previous State service may not be purchased as the cost for each year is calculated based on your salary and age at the time of the transfer. In most of the transfers we have processed, the total amount in the DC account is not sufficient to purchase all of the previous service.*

Q. I elected to participate in the DB plan when first hired as an exempt employee. What happens if I become employed in another exempt position? A classified position?

A. Under either scenario, you will remain in the DB plan unless you withdraw your DB contribution balance during the interim. You will not get another election to switch to the DC plan as you already elected the DB plan. If your DB account was withdrawn and your creditable service lost as a result, you will get another election between DB and DC, but you will begin under a membership with no prior service.

Q. What happens if I do not take my account balance immediately, and my death occurs after termination of service?

A. Under either plan, your account balance will be returned to your designated beneficiary(ies), or to your Estate in the absence of a designated beneficiary(ies).