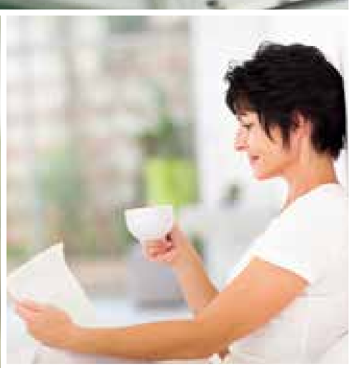
DCP

Virginia Retirement System

Commonwealth of Virginia
457 Deferred Compensation Plan
Plan Features & Highlights








The Commonwealth of Virginia 457 Deferred Compensation Plan can help you realize your retirement goals. The plan, available through your employer, allows you to save for retirement on a before-tax or after-tax basis through convenient payroll deductions. With pre-tax deductions, your contributions and any earnings are tax-deferred. With Roth after-tax deductions, you pay taxes on your contributions now, for qualified tax-free withdrawals later. Read more to learn how you can benefit by saving with the plan.

DCP
Virginia Retirement System

Saving for your retirement is simpler than you might think.

We'll show you how in just three easy steps you can be on your way to a more secure future.

step 1 — **Learn More**
Gather information and identify the steps that will get you to your goals.

step 2 — **Make a Plan**
Determine what you want and need and set your goals.

step 3 — **Start Saving!**
Take the actions needed to reach your goals.

STEP 1:

LEARN MORE

Learn more about why enrolling in the COV 457 Plan can help you build retirement security. In addition to having your contributions grow tax-deferred, it can help you save money because your before-tax contributions made during the year are not included in your taxable income. Or if you prefer to save money on taxes later in life, you can choose Roth after-tax contributions for qualified tax-free withdrawals. And setting aside more money from each paycheck can really add up over time.

Benefits of Saving With the Plan

Meet Jennifer (Age 25)

Jennifer just started working for a Commonwealth of Virginia employer that offers the COV 457 Plan. She feels good about the fact that she can start to build up her retirement savings.

Jennifer:

- Isn't worried about the tax deduction now
- Is confident her salary will increase over the years to come
- Expects to be in a higher tax bracket when she retires

	Contributing to 457 Plan Before Tax	Contributing to 457 Plan Roth After Tax
Gross Pay	$ 36,000	$ 36,000
Annual salary available to save	$ 3,000	$ 3,000
Estimated Income Tax Withholding from Pay	–0	–360
Spendable Pay	$ 3,000	$ 2,640
Total over 40 years	$ 120,000	$ 105,600
Value at retirement	$ 478,012	$ 420,650
Less taxes at 33%	–157,744	–0
After-Tax Value	**$ 320,268**	**$ 420,650**

Consider Roth 457

This hypothetical illustration assumes federal tax withholding of 12% and a 6% average annual return after 40 years. Assumed tax rates designed to illustrate impact of lower and higher tax rates in retirement. Qualified withdrawals of Roth assets are not subject to taxes.

Meet Patrick (Age 45)

Patrick considers himself in his "peak" earning years. He knows he won't be making this money forever, but wants to enjoy it while he can.

Patrick:

- Doesn't think he can afford to lose another tax deduction at this point
- Doesn't really like change
- Expects to be in a lower tax bracket when he retires

	Contributing to 457 Plan Before Tax	Contributing to 457 Plan Roth After Tax
Gross Pay	$ 75,000	$ 75,000
Annual salary available to save	$ 10,000	$ 10,000
Estimated Income Tax Withholding from Pay	–0	–2,500
Spendable Pay	$ 10,000	$ 7,800
Total over 20 years	$ 200,000	$ 156,000
Value at retirement	$ 378,731	$ 295,410
Less taxes at 15%	–56,810	–0
After-Tax Value	**$ 321,921**	**$ 295,410**

Consider Traditional 457

This hypothetical illustration assumes federal tax withholding of 22% and a 6% average annual return after 20 years. Assumed tax rates designed to illustrate impact of lower and higher tax rates in retirement. Qualified withdrawals of Roth assets are not subject to taxes.

Just starting out in your career?

You might think you can't afford to put much aside, but making small changes now truly can make a big difference over the long term. By investing early, your money has more time to work for you.

SmartStep

SmartStep helps you save more for retirement with small annual increases to your contribution. Small annual increases will help you increase your contribution gradually, with less impact to your paycheck.

Are you mid-career or nearing retirement?

When starting mid-career or even later, it's important to consider your investment strategies, the amount you have available to contribute and the benefit of deferring income taxes. You may need to contribute more since you have a shorter timeframe and also need to save on taxes, while being more conservative in your investment choices.

457 Plan Catch-Up Provisions

Age 50 Catch-Up — if you are at least age 50 before the end of the tax year, the catch-up allows you to make additional contributions.

Standard Catch-Up — you may make contributions up to twice the regular contribution limit during the three calendar years prior to your designated normal retirement age, depending on your available catch-up credit.

IRS regulations state the Age 50 Catch-Up Provision cannot be used in the same calendar year as the Standard Catch-Up Provision.

Tax Planning

Having both before-tax and Roth after-tax contributions available allows you to choose the type of contributions that best fit your lifestyle. The same annual contribution limits apply whether you choose one or a combination of both contribution types.

Choosing Investments

Need more information to help you choose which funds to invest in? Click **Publications** to view the *VRS Defined Contribution Plans Investment Guide.*

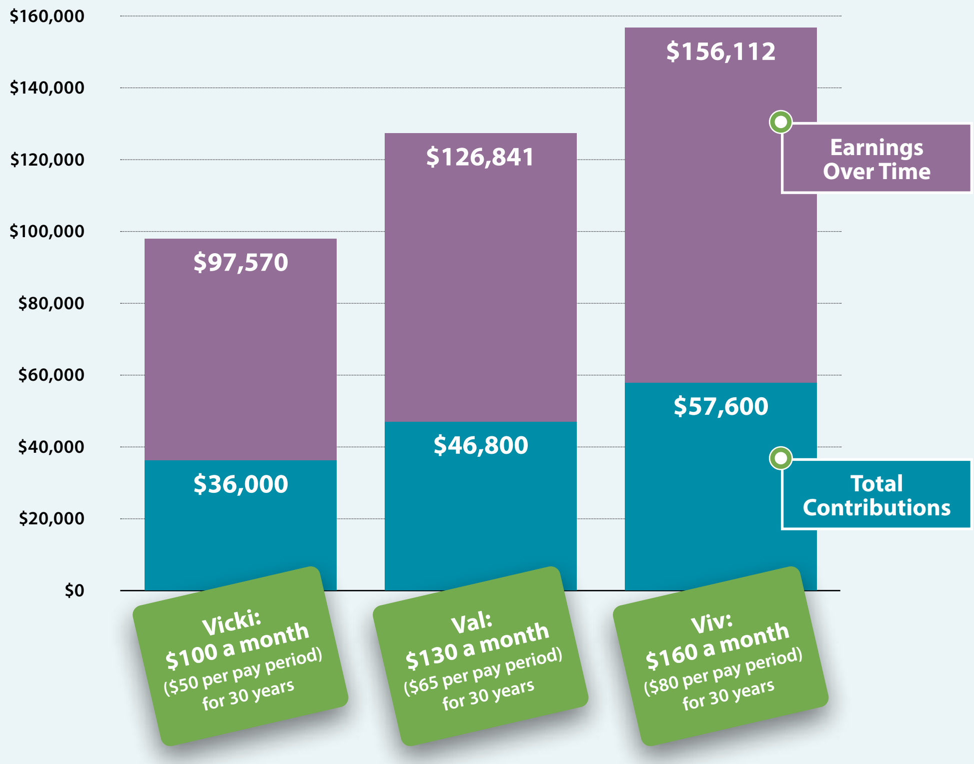
Tax Saver's Credit*

To encourage low- and moderate-income individuals to save, the government offers a tax credit for contributions to eligible retirement plans. Visit **www.irs.gov** and search for "Saver's Credit" for additional details.

If you take this tax credit, you can still deduct your before-tax contributions to qualified retirement savings plans as allowed under current law. For more information, call the Plan Information Line and speak with a Participant Services Representative.

**Source: https://www.irs.gov/pub/irs-pdf/f8880.pdf*

The value of contributing more money over time



This chart demonstrates the added value of contributing more money over time.

For illustrative purposes only; assumes bimonthly employee contribution made on 15th and 30th of each month and a 6% effective annual return. The final account balance does not account for plan fees or expenses, which would reflect lower net returns. Investment return and principal value will fluctuate, so when shares are redeemed they may be worth more or less than the original cost.

Resources

Visit the website: **www.varetire.org/457**

Note: No password is required to access general plan and investment information online. You will need your password to access your plan account online or by phone.

Call toll-free: **VRS-DC-PLAN1** (877-327-5261):

- **Press 1** to speak with a Participant Services Representative, weekdays 8:30 a.m. – 9:00 p.m.
- **Press 2** to speak with a Defined Contribution Plans Retirement Specialist or reach the Virginia Service Center, weekdays 8:30 a.m. – 5:00 p.m.

Visit the myVRS Financial Wellness website: **www.varetire.org/financial-wellness**

myVRS Powered by Enrich FINANCIAL WELLNESS

Stop by the **Virginia Service Center**

Riverfront Plaza
951 E. Byrd Street, Suite 530
Richmond, VA 23219

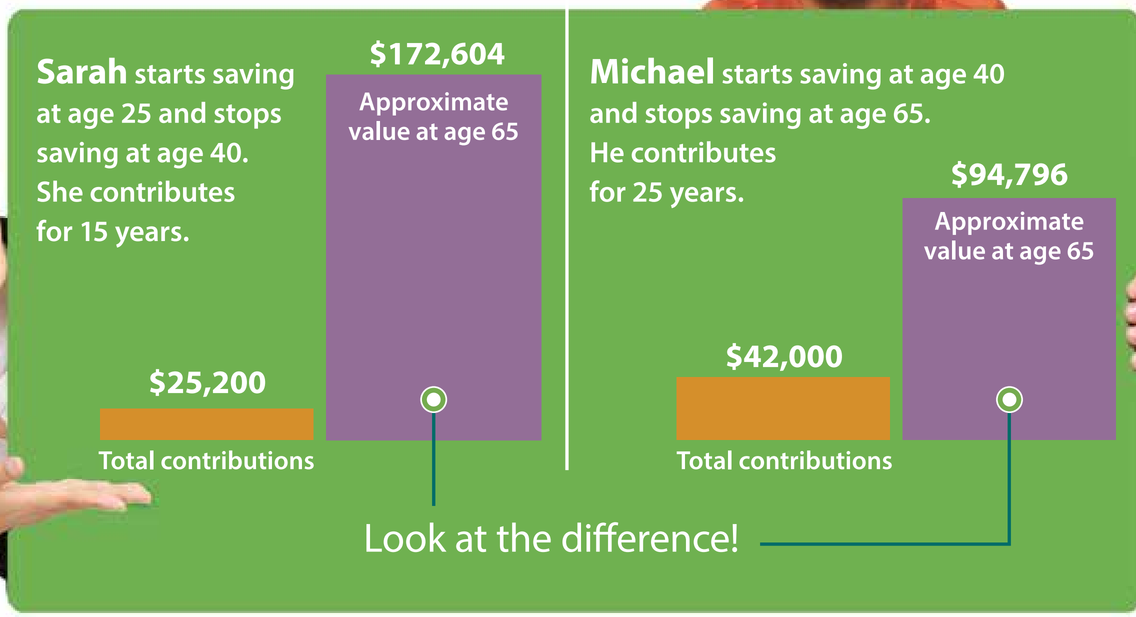
Monday – Friday | 8:30 a.m. – 5:00 p.m. ET

Walk-ins and scheduled appointments are available between 8:30 a.m. and 5:00 p.m. (To meet with a representative during the 12:00 p.m. to 1:00 p.m. lunch hour, please schedule an appointment.)

STEP 2:

MAKE A PLAN

Now that you've done your research, it's time to plan. What's best for you depends on a variety of factors, such as whether you're just starting out in your career or are closer to retirement. Choose how much from each paycheck to set aside, which funds to invest in and whether to take advantage of a tax credit that might apply to you.



Assumptions: Individuals make a total $100 monthly contribution and receive an employer match of $40 per month, earning a 6% effective monthly compounded return. Contributions are made at the beginning and in the middle of each month. This example is not intended to guarantee an actual rate of return. Actual returns may be more or less, depending on your investments.

Participating in retirement savings plans may be one of the best decisions you'll ever make. However, unexpected challenges will likely cross your path. By taking these steps today, you may have an easier time staying on track to meet your goals.

Maintain an emergency fund

Retirement savings plans were not designed to be short-term savings vehicles or to replace your household emergency fund. Therefore, it is important that you have another source of savings (or emergency fund) that you can access easily.

Most experts suggest having three to six months of your living expenses set aside.

Be consistent

Saving and staying focused on your retirement goal is very important to achieving a secure financial future. Because it is payroll deducted, the 457 Plan is an easy way to save. There may come a point in time when it feels like there are competing priorities for your paycheck dollars.

Chances are, if you take a closer look at your spending habits you'll find money that could be invested for your future.

The 457 Plan allows you to have more money available for savings by deferring income tax on the amount you contribute before tax. If you expect to be in a higher tax bracket in retirement, Roth after-tax contributions allow you to pay taxes now, to avoid higher taxes when you withdraw later.

Make small changes for big results

Try keeping a spending journal for a few weeks to help you track where your money is going and to identify saving opportunities, such as:

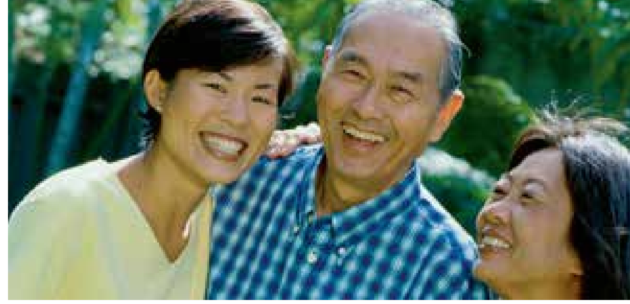
- ***Bringing your lunch to work.***
- ***Brewing your coffee.***
- ***Drinking tap water instead of buying bottled water.***
- ***Streaming a movie and popping your own popcorn on Saturday night.***

To view your annual contribution limits:

- Visit **www.varetire.org/457**
- Click **Plan Info**
- Click **Contributions**

STEP 3:

START SAVING!



Now you're ready to enroll and begin building your retirement security! Here are answers to some commonly asked questions about participating in the plan and managing your retirement account.

Who is eligible to enroll?

All employees of the Commonwealth of Virginia and participating employers including wage employees and elected or appointed officials are eligible to enroll.

How do I enroll in the plan?

You can enroll two ways:

- **Online:** Go to www.varetire.org/457 and select the *New User — Register Now* link under the Account Access log-in box and follow the prompts to register online.
- **By phone:** VRS-DC-PLAN1 (877-327-5261), option 1.

Wage/part-time employees may enroll by form, which can be obtained under the form tabs of **www.varetire.org/457** or by calling **VRS-DC-PLAN1** (877-327-5261).

Who contributes?

You contribute to the plan.

What is the contribution amount?

The minimum amount you can contribute is $10 per pay period (applies to each contribution type you choose, before tax and/or Roth after tax). The maximum you can contribute is up to 100% of includible compensation or the maximum annual plan limit. To view your regular, age 50+ and standard catch-up contribution limit for this year, visit **www.varetire.org/457** and click **Plan Info.**

Age 50+: If you are age 50 or over during the calendar year, you may contribute an additional amount to the 457 Plan for all plan years except during the years you are using the Standard Catch-Up Provision.

In addition to your contributions to the 457 plan, you also may roll money into the plan from an eligible retirement plan such as a 401(a), 401(k), 403(b), 457(b), traditional IRA or Federal Employees Thrift Savings Plan.

Standard Catch-Up: You may make contributions up to twice the regular contribution limit during the three calendar years prior to your designated normal retirement age, depending on your available catch-up credit.

What are my investment option choices?

The plan offers a variety of investment options — from pre-mixed target date portfolios to a menu of options across asset classes — to construct your investment portfolio. Additionally, the plan offers a Self-Directed Brokerage Account (SDBA) for an additional fee. Publicly traded mutual funds, exchange-traded funds (ETFs) and individual securities are offered through the SDBA. As of 6/3/2019, MissionSquare Retirement does not charge a fee to establish a SDBA for participants in any of the Commonwealth of Virginia plans. You must maintain a balance of $2,500 in the core DCP investments before investing in the SDBA. The minimum transfer amount is $1,000.

For more information about the plan's investment options, go to **www.varetire.org/457** or call the Plan Information Line toll-free at **VRS-DC-PLAN1** (877-327-5261). For information about the SDBA, contact TD Ameritrade at **866-766-4015.** Please consider the investment objectives, risks, fees and expenses carefully before investing.

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How do I make investment option changes?

You can make changes to your account online or by phone. Go to the plan website at **www.varetire.org/457** and log into your account or call the toll-free Plan Information Line at **VRS-DC-PLAN1** (877-327-5261) to:

- Move all or a portion of your existing balances between investment options (subject to plan rules)
- Change how your future contributions are invested

How do I keep track of my account?

You will receive a quarterly account statement showing your account balance and activity for your 457 Plan. You also can check your account balance online at **www.varetire.org/457,** and log into your account or call **VRS-DC-PLAN1** (877-327-5261). You may elect to receive an electronic statement.

Are there fees to participate in the plan?

Yes. A record-keeping fee of $2.54 will be deducted from your account on a monthly basis ($30.50 per year). If you

Learn more, enroll and manage your account:

Online — Go to **www.varetire.org/457** and log into to your account.

Phone — Call the toll-free Plan Information Line, **VRS-DC-PLAN1** (877-327-5261).

participate in more than one Commonwealth of Virginia defined contribution plan, only one annual fee of $30.50 will be deducted from your account. In addition, each investment option has investment management and other fund costs that vary. Investment option fees and performance are available on the plan website, by calling the Plan Information Line or within the Investment Option Performance report included with your quarterly statement. For more information about fees associated with the Self-Directed Brokerage Account, refer to the fund profile online or call the Plan Information Line.

Can I use my 457 account balance to purchase service credits for the VRS Defined Benefit Plan?

Yes. In-service trustee-to-trustee transfer of assets from a governmental 457(b) plan to a governmental defined benefit plan for the purchase of permissible service credit or repayment of contributions and earnings that were previously refunded, causing forfeiture of service credit under the defined benefit plan, is allowed. For additional information, call **VRS-DC-PLAN1** (877-327-5261). To use the option, you must be approved to purchase service by your defined benefit plan.

May I transfer or roll over my account from another plan into this plan?

Yes. Balances from an eligible retirement plan such as a 401(a), 401(k), 403(b), 457(b), traditional IRA or Federal Employees Thrift Savings Plan may be rolled over. Certain after-tax rollovers are permitted into the Cash Match Plan and the Deferred Compensation Plan. However, please note that balances from Roth IRAs cannot be rolled over into these plans. For additional information, call the Plan Information Line at VRS-DC-PLAN1 (877-327-5261).

Note that rollovers from these plan types will be separately accounted for to ensure that the distribution from these plan types will still be subject to the 10% additional tax under IRS Section 72(t).

May I contribute to the plan the payout I receive for unused vacation and sick leave or other compensation such as bonuses?

Yes. To make these types of contributions to the plan, complete the Payroll Authorization-One-Time Deferral Form, which is available at **www.varetire.org/457**, from your employer or by calling the Plan Information Line. You must give the completed form to your employer while you are still employed and no later than the month before the month in which you would otherwise receive the payment. Any one-time deferrals you make to the plan count toward the contribution limit for the year in which the deferral is posted to your plan account.

When can I withdraw from my account?

You may withdraw only when you meet one of these conditions:

- It has been at least one full calendar month since you terminated employment from an employer that offers the COV 457 plan,
- Use your plan account to purchase VRS service credit, if approved,
- Experience an unforeseeable emergency that is approved by the Plan Administrator,
- Have a low balance, inactive account (subject to IRS De Minimis withdrawal guidelines and plan requirements)
- Rolled funds from another retirement plan into your 457 Deferred Compensation Account, or
- Reach age 70½, even if still employed.

If you die, your beneficiary receives your benefits. Generally speaking, withdrawals are not subject to an early withdrawal penalty, but are subject to state and federal income tax.

You are required to take your first minimum distributions by April 1 of the calendar year following the later of: (1) the calendar year in which you reach age 72, or (2) the calendar year in which you terminate employment from the employer sponsoring your plan.

You may withdraw Roth after-tax assets on a tax-free basis if five years have passed since January 1 of the year you made your first Roth contribution and you are at least 59½ years old, permanently disabled, or the assets are being paid to your beneficiaries following your death.

If you were automatically enrolled in the plan and elect not to participate, you may still opt out of participation within 90 days of the first contribution being posted to your account. Should you opt out of participation during this time frame, you will automatically receive a refund of your contributions.

What are my distribution options?

Keep your money in the plan until a future date (subject to required minimum distribution rules.)

Receive:

- A total or partial lump sum
- Annuity payments
- Periodic payments
- Partial lump sum with remainder paid as a periodic payment or annuity

Roll over into an eligible retirement plan such as a 401(a), 401(k), 403(b), governmental 457(b), traditional IRA, Roth IRA or Federal Employees Thrift Savings Plan that accepts such rollovers.

Is there a penalty for taking a distribution from the 457 Plan?

Unlike many retirement savings plans, there is no early withdrawal penalty for distributions from the plan. If you have had at least a full month break in employment from an employer that offers the plan, you may take distributions from the plan, regardless of your age. Distributions are subject to federal income tax and state income tax, depending upon the state in which you reside at the time of distribution. A penalty may apply if you rolled funds into the COV 457 Plan from another type of plan.

You may withdraw Roth after-tax assets on a tax free basis if five years have passed since January 1 of the year you made your first Roth contribution and you are at least 59½ years old, permanently disabled, or the assets are being paid to your beneficiaries following your death.

Once I receive payments, can I change my payment amount?

Yes. You can make changes to your distribution requests. Except for the purchase of an annuity, you may change your distribution option for the balance remaining in your plan. Go to **www.varetire.org/457** and click on the ***Forms*** tab to obtain a Distribution Form or call toll-free **VRS-DC-PLAN1** (877-327-5261).

May I transfer or roll over my account if I leave my current employer?

If you leave employment with the employer that provides the plan, you may roll over your account balance to an eligible retirement plan such as a 401(a), 401(k), 403(b), 457(b), traditional IRA, Roth IRA or Federal Employees Thrift Savings Plan that accepts such rollovers. However, an IRS penalty for withdrawals from these plans prior to age 59½ may apply.

Note: Check with the plan that you are rolling into to ensure it accepts such rollovers.

At termination or retirement, are there other contributions I can make to the plans?

Participants terminating employment or retiring may also contribute their unused vacation, compensatory and sick leave payout (including disability credits) to the COV 457 Plan. Submit the required form to your payroll officer while you are still employed and no later than the month prior to the month in which the compensation would otherwise be paid to you.

If you select the Partial Lump Sum Option (PLOP) for your VRS retirement, some or all of the lump-sum payment may also be rolled over to your defined contribution account. You may take a distribution from your rollover account while you are employed by the Commonwealth or a participating employer.

Will I be forced to take a distribution from the plan when I leave employment with the employer that provides the plan?

No. You may leave the monies in the plan and continue to manage your account. When you reach age 72, a certain minimum distribution will be required if you are not still working for an employer that provides the plan.

May I continue to make contributions to the plan once I terminate employment with an employer that offers the plan?

No. Contributions can only be made while you are employed by a sponsoring employer, including the Commonwealth of Virginia or one of the Virginia political subdivisions, school divisions or special authorities that adopted the plan. However, once you leave employment, you may roll in money from other retirement plans, as long as you keep a balance in your plan.

What do I do if I change employers covered under the same plan?

If you leave your job and return to work, with or without a break in service, with another employer that participates in the COV 457 Plan, your employee contributions will stop with your old employer and you will need to restart them under your new employer. Upon receipt of a termination date from your old employer, you will receive a letter from MissionSquare, the VRS third-party record keeper, stating that your employee contributions have been set to zero. Your new employer will have to enroll you at VRS under their employer code before you can restart your employee contributions. To reset your deferral amount, please go to Account Access at **www.varetire.org/457** or call **VRS-DC-PLAN1** (877-327-5261).

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