

peba academy 

Retirement Benefits Training

Leaving covered employment
Fiscal year 2021

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Topics

- Leaving funds on deposit.
- Requesting a refund.
 - Employer responsibilities.
- Options for State ORP participants.

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Leaving funds on deposit

Defined benefit plans

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Applying for retirement later

- Member can apply for retirement upon eligibility if:
 - Class Two member and has five years earned service; or
 - Class Three member and has eight years earned service.
- Member has responsibility to file retirement application once eligible.

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Interest on account funds

- Funds accrue interest until account becomes inactive.
- Account becomes inactive as of July 1 when:
 - No contributions made in preceding fiscal year; and
 - No other active, correlated system or State Optional Retirement Program (State ORP) account exists.
- Account status updates on fiscal year basis.

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How long can funds stay on deposit?

- IRS requires that distributions begin by later of two dates:
 - April 1 of the year after the year in which member turns age 72, or;
 - Year in which member retires.
- Penalties may apply if this requirement not met.

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Member information

- Member should maintain current address through Member Access.
- Member should update beneficiary information through Member Access.
 - Can also complete appropriate notarized form.

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Requesting a refund

Defined benefit plans

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Requesting SCRS, PORS refund

- Member must terminate employment from all covered employers and correlated systems.
- Minimum 90-day waiting period from termination date before refund issued.
- Employer contributions are not refunded.
- Returning to covered employment before refund payment cancels refund.
- Loans or hardship withdrawals are not allowed.

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Impact of receiving refund

- Member forfeits rights to future service retirement or disability benefits.
- Cancels all service credit in the account.
- Withdrawn service does not count toward retiree health insurance eligibility under the State Health Plan.

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How to request refund

- Member can request refund through Member Access.
 - Can also complete notarized *Refund Request* (Form 4101).
- Copy of member's driver's license or state-issued ID is required.
- If denied for disability retirement and requesting refund, member must send signed statement to PEBA refusing right to appeal disability retirement denial.

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Refund payment options

- As part of the refund application, member must select a payment option:
 - Single-sum payment;
 - Direct rollover; or
 - Partial rollover.

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Single-sum payment

- Pretax portion subject to 20 percent federal tax withholding.
 - May be additional penalties if under age 59½ at time of distribution.
- Taxable portion subject to South Carolina income taxes during year in which refund is received.
- Encourage members to consult a personal tax advisor for assistance.

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CARES Act

- Members who receive a refund in 2020 and complete the *COVID-19 Certification (Form 4275)* certifying the refund meets the requirements of a coronavirus-related distribution are not subject to the automatic 20 percent federal tax withholding.
 - Members under age 59½ at the time of the refund distribution would not be subject to the 10 percent early withdrawal tax penalty.
- Waiver of mandatory withholding does not necessarily mean taxes will not be owed on the distribution.
- Members should consult with a tax advisor for more information on tax implications.

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Rollovers

- Members may roll over funds into IRA, 401(k) plan, 401(a) eligible plan, 403(a) plan, 403(b) plan or 457 plans.
- Direct rollover:
 - Members choose pretax amount only or total balance.
- Partial rollover:
 - Remaining balance paid in single-sum payment and subject to applicable rules.

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Employer actions

- You will receive an EES Task List notification once PEBA receives a refund application for one of your employees:
 - *Active Member Refund* task; or
 - *Inactive Member Refund* task.
- Do not estimate or project final payroll information.
- PEBA will refund employee contributions based on the information you provide.
- Employer is responsible for any overpayment of benefits resulting from overstated contributions.

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Active member refund task

- Enter last day of earned compensation, date of termination and date of final paycheck.
 - Enter any leave payout information.
 - Enter final quarter payroll information.
 - Enter any furlough payout information.
- If the employee is still employed (cancels refund) or you are unable to locate any employment records, mark the appropriate box in Step 1.
- Review entered information and submit completed task.
- Do not mail any information to PEBA.

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Inactive member refund task

- Check the appropriate box:
 - Employee is no longer employed. Add termination date. Confirm the final quarter information;
 - Employee is still employed. The refund request will be canceled; or
 - You are unable to locate any employment records about the employee.
- Review entered information and submit task.
- Do not mail any information to PEBA.

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Options for State ORP participants

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Options for State ORP

- There are no minimum age or years of service requirements to begin receiving State ORP funds.
 - Participants can request a distribution of their account balance either at termination of covered employment or after age 59½.
 - Participants may leave their funds in their State ORP account until they elect to receive them.
- IRS requires annual minimum distributions beginning at age 72.

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State ORP benefit

- Benefit is based on the participant's account balance at retirement.
 - Any fees, distributions, and investment gains or losses will affect this balance.
 - Potential federal tax penalties for distribution prior to age 59½.
- Participants who return to work for a covered employer will continue to contribute to their account as an active participant in the State ORP.

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