


[Home](#)

[Back](#)

[Forward](#)

Refunds

Certain life events may entitle a VRS member or a member's beneficiary to receive a refund. Throughout this chapter, usage of "refund" refers only to taking defined benefit funds from the member contribution account (MCA).

Depending on their circumstances, individuals employed by VRS-participating employers may also be eligible for distributions from a Commonwealth of Virginia 457 Deferred Compensation Plan (COV 457 Plan), Virginia Cash Match Plan, an Optional Retirement Plan (ORP), or the defined contribution component of the Hybrid Retirement Plan. For details on distributions, see the [Distributions chapter](#) of the Employer Manual.

Eligibility

The following individuals may be eligible to take a refund:

- A member who terminates VRS-covered employment, provided that the member does not become re-employed in another VRS-covered position within one full calendar month of termination (must be a bona fide break in service);
- A member who terminates VRS-covered employment and moves to a non-covered (part-time, non-classified, wage) position with a different VRS-participating employer without a full calendar month break in service (all agencies of the Commonwealth of Virginia are considered to be one employer);
- A Plan 1 or Plan 2 member who takes work-related disability retirement; or
- The beneficiary of a member or retiree who dies with money remaining in the MCA.

Ineligible Individuals

The following individuals are not eligible to take a refund:

- A member who continues employment in a VRS-covered position;
- A member who terminates VRS-covered employment and moves to a non-covered (part-time, non-classified, wage) position with the same employer, unless the member incurs a full calendar month break in service;
- A member on leave (including educational leave) with or without pay unless employment is terminated;
- An individual employed under any VRS-sponsored plan (including the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS), the Judicial Retirement System (JRS) or any of the Optional Retirement Plans or alternative retirement plans established by the *Code of Virginia*) who transfers to another VRS-sponsored plan without at least a full calendar month break in service;
- An educator or faculty member who goes on summer break after completing a contract period with an employer, if the educator or faculty member will be

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

returning to employment with the same or another VRS-participating employer at the beginning of the next contract period;

- A member who retires for service or non-work-related disability;
- A non-vested member who has no member-paid defined benefit contributions, unless involuntarily separated from a job through causes not related to job performance or misconduct; or
- A member on short-term or long-term disability who wishes to continue to receive disability benefits.

Terminating Employment

A member who terminates employment may choose to become a deferred member by leaving the defined benefit contributions and interest in the retirement system. If the individual instead terminates employment and takes a refund of their MCA, they are no longer a member.¹

Depending on the vesting status and when the contributions were made, a refund of the MCA includes the member's retirement contributions, as well as any employer-paid member contributions, payments the member may have made to purchase service credit, plus any interest accrued on the account balance. A Hybrid member may take a refund from their MCA or a distribution from their defined contribution component, or both. (See the [Distributions chapter](#) of the Employer Manual for details on distributions from the defined contribution component.)

Break in Service

A member must have a full calendar month break in service before taking a refund. This break in service must take place over a period the employee normally would work. For teachers and other contract employees, summer breaks or intersession periods do not count toward this break in service. The Internal Revenue Service (IRS) prohibits payments from a qualified pension without a bona fide break in service.



A VRS-covered member who leaves their position to take a VRS-covered position with another participating employer is still a VRS member and may not take a refund. For example, a teacher employed in Manassas City schools who leaves that job to accept a position with Henrico County is not eligible for a refund.

¹ The *Code of Virginia* does not allow VRS members to borrow or withdraw funds from their MCAs, only to take a refund when leaving covered employment.

TABLE OF CONTENTS



[Home](#)



[Back](#)



[Forward](#)

Eligibility

- [Ineligible Individuals](#)

Terminating Employment

- [Break in Service](#)
- [Membership Implications](#)
- [Benefit Implications](#)

Vesting

Leaving the Money in VRS

Applying for a Refund

- [Refunds Payable Due to Death](#)

Taxes on Refunds

- [Taxes on Refunds Paid to a Beneficiary](#)

Rollover Options for Refunds

- [Rollover Options for Refunds Paid to a Beneficiary](#)

Special Circumstances

- [Attachments](#)
- [Payment for Annual Leave](#)
- [Work-Related Disability Retirement](#)
- [Payments Procured by Fraud](#)
- [Felony Convictions](#)


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

A member who terminates covered employment to work in a part-time wage position with the same employer is not eligible to take a refund unless there is a bona fide break in service of at least a full calendar month between the two positions. The member must not be eligible to be reported on the employer's payroll for at least a full calendar month.

Membership Implications

If a member takes a refund of the MCA, VRS membership and eligibility for future benefits are lost. A Hybrid member who takes a distribution from the defined contribution component but does not take a refund from their MCA remains a deferred member. (See the [Distributions chapter](#) of the Employer Manual for details.) The chart below reflects the impact on refunds.

If the member is... and takes a...		then the member...
Plan 1 or Plan 2	refund of the MCA (defined benefit)	terminates membership in VRS
Hybrid	refund of the MCA (defined benefit)	terminates membership in VRS
Hybrid	distribution of the defined contribution component	remains in VRS as a deferred member as long as they do not take a refund of the MCA

A member who takes a refund and returns to a covered position will be hired under the plan provisions in effect at the time.



EXAMPLE Plan 1 or 2 member who terminates employment and takes a refund but returns to non-hazardous duty VRS-covered employment will become a Hybrid member.

Benefit Implications

Because membership ends when a member takes a refund, VRS benefits also end. If a Hybrid member takes a distribution from the defined contribution component but does not take a refund, there is no impact to benefits. (See the [Distributions chapter](#) of the Employer Manual for details.)

The following chart explains impacts to the benefits of a member who takes a refund.

Benefit	Refund Effect on the Benefit
Monthly defined benefit	The member is no longer eligible for the benefit;
Basic Group Life Insurance	Coverage ceases, but the member may convert the entire amount of Group Life Insurance or any portion of the natural death benefit to an individual whole life policy, with certain conditions, using an Enrollment Form for Conversion of Group Life Insurance (VRS-35);
State Retiree Health Benefits Program	The member is no longer eligible for coverage;
Disability benefits under the Virginia Sickness Disability Program (VSDP) and Virginia Local Disability Program (VLDP)	Short-term and long-term disability benefits end. However, the member can continue long-term care coverage by completing the Authorization of Coverage Retention Long Term Care Plan (VRS-170) and the Protection Against Unintentional Lapse Long Term Care Plan (VRS-171) within 60 days of the date of termination. The member must pay the cost of long-term care coverage;
COV 457 Plan and Virginia Cash Match Plan	A member who has money in either plan may leave the money in the plan(s) or may take a distribution

Vesting

The amount of refunded contributions depends on the employee's hire date and if the member is vested. The following chart explains how the hire date affects members:

	Hired before July 1, 2010	Hired on or after July 1, 2010
Vested	All accumulated contributions and interest are refundable, regardless of hire date.	
Not vested with employer-paid member contributions only	<ul style="list-style-type: none"> Contributions and interest credited before July 1, 2010 and interest earned on those funds after July 1, 2010 are refundable; Contributions made after July 1, 2010 and interest earned on those funds are not refundable; 	<ul style="list-style-type: none"> Contributions and interest are not refundable; Refund is not processed and the member goes into deferred status;
Not vested with employer-paid member contributions and member-paid member contributions	<ul style="list-style-type: none"> Employer-paid member contributions and interest made before July 1, 2010 and any interest earned on those funds are refundable; Employer-paid member contributions made on or after July 1, 2010 are not refundable; All member-paid member contributions and interest are refundable. 	<ul style="list-style-type: none"> Employer-paid member contributions and interest are not refundable; All member-paid member contributions and interest are refundable.

Employer contributions that are not refunded to the member are moved to the employer's Retirement Allowance Account (RAA). If multiple employers are involved,

TABLE OF CONTENTS


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

the amount reverts on a pro-rata basis to each employer. The member may later purchase the service representing the refund and any funds that reverted to the RAA.



A member who is involuntarily separated for reasons other than performance or misconduct can receive all of their MCA regardless of whether the employer-paid member contributions were made on or after July 1, 2010. This also applies if the separation is due to death or to work-related disability retirement.

Leaving the Money in VRS

A member who leaves retirement contributions in VRS defers retirement benefits and retains the service credit that was earned as an employee. This credit can be added to any service credit the member may earn through future VRS-covered employment. If no refund was taken, the member will remain in the same plan if rejoining VRS-covered employment.

VRS contacts members at full or unreduced Social Security age to provide an unreduced Basic Benefit estimate and the current account balance available for refund.

Deferred members whose retirement contributions remain in VRS must start receiving a monthly benefit or take a refund by April 1 following the calendar year in which they reach age 73 unless they return to covered employment or non-covered employment with a participating employer. VRS contacts members who do not retire prior to the calendar year in which they reach age 73. Deferred vested members who do not respond and who have not submitted a retirement application are retired under the Basic Benefit.

Employers should encourage individuals to keep their contact information current after employment so they can be contacted for any future account maintenance or refunds or distribution issues. Individuals who have left employment can continue to use myVRS to update their contact information. Those who have left employment and do not have myVRS access should submit a [Name and Address Declaration for Deferred Members \(VRS-3A\)](#) to update their contact information.

Applying for a Refund

A member must wait one full calendar month from the separation date the employer enters in myVRS Navigator to be eligible for a refund. To request a refund, the member


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

must use the myVRS online self-service tool. myVRS allows members to consider different refund payment options and walks them through the process step by step. The refund is usually available via direct deposit within 45-60 days.



A member who becomes covered by an ORP may transfer their MCA funds to an ORP account. The member uses the VRS-3ORP to initiate the transfer.

Refunds Payable Due to Death

If an active member dies, the beneficiary for retirement benefits is eligible for a refund. A beneficiary who is the member's spouse, minor child or parent may choose a monthly benefit if the member was vested or a refund to the exclusion of any other named beneficiary. If the member's death is from a cause compensable under the Virginia Workers' Compensation Act, the designated beneficiary receives a refund and the surviving spouse receives a monthly benefit. If there is no surviving spouse, any surviving minor children equally share the monthly benefit. If there are no surviving minor children, then the surviving parent(s) receive the monthly benefit.

If a retiree who did not elect a Survivor Option dies before receiving retirement benefits that equal or exceed the balance of the MCA, the retiree's beneficiary is entitled to receive a refund of the remaining retirement contributions plus interest that has accrued to the date of retirement. For details on death payments and for about additional benefits a survivor may be eligible for, see the [Death Benefits chapter](#) of the Employer Manual.



Refunds in the case of death are not initiated through myVRS.

Taxes on Refunds

VRS makes every effort to provide the best information available on the tax status of a refund, but it is ultimately the member's responsibility to ensure compliance with all state and federal tax regulations. Members considering a refund should read the [IRS 402\(f\) – Special Tax Notice](#) for details about the potential tax consequences of taking a refund.

Members with tax questions should contact the Virginia Department of Taxation or a tax advisor. The taxable portion of a refund paid to the member is subject to a mandatory 20%


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud

federal tax withholding in the year it is issued,² however, members may elect to withhold an additional amount for federal taxes. In addition, a 4% state tax withholding is applied to the taxable portion of the refund if the member is a legal resident of Virginia at the time of payment. A member who is no longer a Virginia resident is responsible for paying the appropriate taxes to the state of residence.

All funds are taxed except the funds on which the member has already paid taxes. VRS automatically withholds the required taxes before paying the funds to the member. A member can defer tax withholdings by rolling over the taxable contributions and interest into a qualified plan, as allowed by the *Internal Revenue Code*. For additional information, see the Rollover Options for Refunds section in this chapter.

Taxes on Refunds Paid to a Beneficiary

If the surviving spouse of a deceased member elects to receive a direct payment of the refund, VRS withholds 20% federal tax, although the survivor may elect to withhold an additional percentage for federal taxes. In addition, a 4% state tax withholding is applied if the surviving spouse is a resident of Virginia at the time of payment. These withholding regulations apply only to the portion of the payment that represents taxable contributions and interest.

A refund paid to the surviving spouse of a member may instead be rolled over in the same manner as a payment to a member. See the Rollover Options for Refunds Paid to a Beneficiary section of this chapter for details.

Rollover Options for Refunds

Upon separation, a member may elect to roll over the refund to a traditional IRA, a Roth IRA (under certain circumstances) or to an eligible employer plan that accepts rollovers, including the Hybrid 457 Plan, COV 457 Plan and the Virginia Cash Match Plan. The payment may not be rolled over to a Simple IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). This postpones payment of taxes on the funds until the money is actually paid out to the member.

² Taxes are not withheld for refund amounts under \$200, regardless of who receives the refund. However, the recipient of the refund may be subject to additional taxes when filing the annual tax return.


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

A rollover can be made in one of two ways:

- By VRS;
- By the member (if opting to receive a direct payment from VRS).

A member may elect a direct rollover through myVRS. However, if the refund is less than \$200 of taxable income, VRS pays the funds directly to the member.

A member who elects a rollover after first receiving a payment from VRS must make the rollover within 60 days of receiving the funds. The member may replace federal and state tax withholdings with personal funds to roll over 100% of the refund. Otherwise, the tax withholding portion is subject to taxation in the year it is withheld. The amount rolled over is not taxable until the member receives the funds.

Funds received from a refund may be rolled to either a traditional IRA or an eligible employer plan. An eligible employer plan includes a plan qualified under section 401(a) of the *Internal Revenue Code*, including the Virginia Cash Match Plan (if the employer provides that plan and the employee is eligible), a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan such as the COV 457 Plan. The VRS is a defined benefit plan qualified under section 401(a) of the *Internal Revenue Code*.

An eligible employer plan is not legally required to accept a rollover. A member who wants to roll over funds to another plan should check with that plan's administrator prior to making the rollover. It is the responsibility of the member to verify that the recipient plan will accept a direct rollover.

If the member made after-tax contributions to VRS, the portion of the payment representing after-tax contributions may not be rolled to a governmental 457 plan. If the after-tax contributions are to be rolled to an employer plan that accepts these rollovers, the refund payment cannot be paid to the member.

If the member rolls after-tax contributions into a traditional IRA, it is the member's responsibility to report the amount of these after-tax contributions to the IRS. Once the member rolls after-tax contributions into a traditional IRA, those amounts cannot later be rolled over to an employer plan.



The member may roll over both taxable and after-tax funds to the Virginia Cash Match Plan (if the employer participates) or to the COV 457 Plan by completing an Incoming Direct Rollover form, located on the VRS [Forms page](#) or by calling 877-327-5261.

Rollovers Options for Refunds Paid to a Beneficiary

A refund paid to the surviving spouse of a member may be rolled over in the same manner as a payment to a member. If the funds are paid directly to the spouse, the spouse may roll over all or part of the payment within 60 days of receipt to a traditional IRA, a Roth IRA (under certain circumstances) or to an eligible employer plan that accepts such rollovers.

A payment to a member's beneficiary who is not the surviving spouse may be rolled over into a traditional IRA or under certain circumstances, to a Roth IRA. It may not be rolled over to an employer plan. A non-spouse beneficiary who elects the payment to be made directly to the beneficiary may not later roll it over to another type of plan.

Special Circumstances

The following special circumstances may apply. For details about specific circumstances not listed, contact your Human Resource department or your VRS employer representative.

Attachments

VRS refunds are exempt from county and municipal tax and are not subject to execution, attachment, garnishment or any other process whatsoever, except under the following conditions:³

- IRS tax levies (the member will be notified by the IRS and VRS regarding the amount of the attachment);
- Debt to an employer who has employed the member;
- Child support payments;
- Marital property as stated in an Approved Domestic Relations Order.

Payment for Annual Leave

An employer's personnel policy may provide for paying a terminating member accumulated annual leave in a lump sum amount or to keep the member on the payroll until the leave is exhausted. The method of payment selected affects deductions,

TABLE OF CONTENTS



[Home](#)



[Back](#)



[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

³ See *Code of Virginia* §51.1-124.4.


[Home](#)

[Back](#)

[Forward](#)

Eligibility

- Ineligible Individuals

Terminating Employment

- Break in Service
- Membership Implications
- Benefit Implications

Vesting

Leaving the Money in VRS

Applying for a Refund

- Refunds Payable Due to Death

Taxes on Refunds

- Taxes on Refunds Paid to a Beneficiary

Rollover Options for Refunds

- Rollover Options for Refunds Paid to a Beneficiary

Special Circumstances

- Attachments
- Payment for Annual Leave
- Work-Related Disability Retirement
- Payments Procured by Fraud
- Felony Convictions

benefits and the time when a refund request may be submitted. Lump-sum annual leave payments can also be deferred to a supplemental savings plan such as the COV 457 Plan, if applicable to that employer.

If a member receives a lump-sum payment for the unused leave time, VRS contributions are not deducted and creditable service is not earned. If a member remains on the payroll until all leave is exhausted, VRS contributions continue to be paid and the member earns service credit for the unused leave time. A member is not eligible for a refund until the employer completes the termination in myVRS Navigator and a full calendar month break in service has been satisfied.

Work-Related Disability Retirement

A member who is approved for work-related disability retirement receives a mandatory refund of the MCA in addition to a monthly retirement benefit from VRS. For details on disability retirement, see the [Disability Retirement chapter](#) of the Employer Manual.

Payments Procured by Fraud

Any payment to a member or beneficiary that is later determined to have been procured on the basis of any knowingly false statement or falsification of records may be recovered from the member or beneficiary by:

- Credit against future payments due the member or beneficiary;
- Legal action against the member or beneficiary; or
- Deducting any overpayment of benefits from insurance proceeds.

The member or beneficiary is given an opportunity to dispute any such proceedings in accordance with provisions of the Administrative Process Act.

Felony Convictions

If a member is convicted of a felony on or after July 1, 2011 and if the employer determines that the felony was associated with the performance of job duties in a VRS-covered position, the employer must report it to VRS using the [Employer Request for Forfeiture of Member Benefits](#) (VRS-180). The member will be eligible for a full or partial refund of employee contributions and interest based on vesting requirements for refunds.