

# DEFINED CONTRIBUTION RETIREMENT PROGRAM (DCRP)

For PERS, TPAF, PFRS, and SPRS Members

The Defined Contribution Retirement Program (DCRP) was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010.

The DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage.

### ELIGIBILITY

Individuals eligible for membership in the DCRP include:

- **State or local officials** who are elected or appointed *on or after* July 1, 2007;
- **Employees enrolled in the Public Employees' Retirement System (PERS) or Teachers' Pension and Annuity Fund (TPAF)** *on or after* July 1, 2007, who earn salary in excess of established "maximum compensation" limits;
- **Employees enrolled in the Police and Fireman's Retirement System (PFRS) or State Police Retirement System (SPRS)** *after* May 21, 2010, who earn salary in excess of established "maximum compensation" limits;
- **Employees otherwise eligible to enroll in the PERS or TPAF** *on or after* November 2, 2008, who do not earn the minimum annual salary for PERS or TPAF Tier 3 enrollment (\$7,800 in 2012 subject to adjustment in future years) but who earn salary of at least \$5,000 annually; and
- **Employees otherwise eligible to enroll in the PERS or TPAF** *after* May 21, 2010, who do not work the minimum number of hours per week required for PERS or TPAF Tier 4 or Tier 5 enrollment (35 hours per week for State employees or 32 hours per week for local gov-

ernment or local education employees) but who earn salary of at least \$5,000 annually.

**This fact sheet addresses DCRP membership for employees enrolled in the PERS, TPAF, PFRS, or SPRS.**

- Elected or appointed officials should refer to Fact Sheet #80, *DCRP for Elected and Appointed Officials*.
- Employees eligible for the DCRP because they do not meet the minimum salary or hours for the PERS or TPAF should refer to Fact Sheet #82, *DCRP if Ineligible for the PERS or TPAF*.

Employees *enrolled* in the PERS or TPAF *on or after* July 1, 2007, or *enrolled* in the PFRS or SPRS *after* May 21, 2010, are subject to a maximum compensation limit for pension contributions. The maximum compensation is based on the annual maximum wage for Social Security (see chart below) and is subject to change at the start of each calendar year.

PERS/TPAF ANNUAL MAXIMUM WAGE	
YEAR	MAXIMUM WAGE
2007	\$97,500
2008	\$102,000
2009 2010 2011	\$106,800
2012	\$110,000

Therefore, an eligible employee who earns in excess of the annual maximum wage will be enrolled in the DCRP — *in addition to* the PERS, TPAF, PFRS, or SPRS (as appropriate).

- Employees who participate in the DCRP will receive service credit in their retirement system account, and will be eligible to retire under the rules of the retirement system — with the final salary or final compensation at retirement limited to the maximum compensation amounts in effect when the salary is earned.
- Additional income will be available in retirement based on contributions from salary above the maximum compensation limit invested in the DCRP.

### Optional Waiver

A PERS, TPAF, PFRS, or SPRS member who is also eligible for the DCRP can choose to voluntarily waive participation in the DCRP by submitting a *DCRP Waiver Form* to the Division of Pensions and Benefits.

If a member waives DCRP participation and later wishes to participate, he or she can apply for DCRP enrollment at that time, with membership to be effective January 1 of the following calendar year.

### **ENROLLMENT**

Eligible members are enrolled in the DCRP when the annual salary exceeds the maximum compensation limit. This may occur either:

- Upon enrollment into the PERS, TPAF, PFRS, or SPRS when an annual base salary is reported on the *Enrollment Application* that will exceed the maximum compensation; or
- When an eligible member's annual salary is increased to where it will exceed the maximum compensation and it is reported by the employer to the Division of Pensions and Benefits (either by directly contacting the Division, or when submitted by the employer on the Quarterly Report of Contributions).

When enrolled in the DCRP, members contribute 5.5 percent of the base salary in excess of the maximum compensation limit to a tax-deferred investment account established with Prudential Financial, which jointly administers the DCRP investments with the Division of Pensions and Benefits. Member contribu-

tions are matched by a 3 percent employer contribution based on the salary in excess of the maximum compensation limit.

It is important that an employer enroll a DCRP eligible member as soon as it is known that the employee's annual salary will exceed the maximum compensation, so that the DCRP account can be established in advance of collection of any required contributions.

### Transfers

Employees who transfer employment will not be subject to maximum compensation limits or DCRP enrollment **if**:

- The transferring employee was a member of PERS or TPAF *on or before* June 30, 2007; **or**
- The transferring employee was a member of the PFRS or SPRS *on or before* May 21, 2010; **and**
- Any of the following situations apply:
  - The member is transferring to an eligible position without a break in service; or
  - Any break in service is 24 months or less from the date of the last contribution to the retirement system and the member's account has not been withdrawn; or
  - Any break in service is 24 months or less from the end of an approved leave of absence.

If a member transfers after a break in service that falls beyond the 24 month exceptions described above, the member will be subject to the maximum compensation rules and DCRP enrollment.

### Vesting

A PERS, TPAF, PFRS, or SPRS member who becomes eligible and is enrolled in the DCRP is immediately vested in the DCRP. As a vested member, you have a right to a benefit at retirement based on both the employee and employer contributions to the DCRP.

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### RETIREMENT

Six months before retirement, a member should contact the employer and Prudential Financial for information regarding DCRP benefits and options.

A DCRP member may elect to receive all or a portion of his/her account in a lump-sum distribution, or in a variety of periodic payment methods. Please contact your administrative services provider for more information. **All returns of contributions and earnings are considered taxable in the year they are received;** therefore, the type of payout plan should be considered carefully prior to retirement.

There is no minimum retirement age under the DCRP. The member will automatically be considered retired, regardless of age, if there is any distribution of mandatory contributions.

A member may take a distribution at any time after termination of employment; however, if you return to public employment in New Jersey, you cannot participate in any State-administered retirement system. **DCRP members considering future employment in a position covered by any of the State-administered retirement systems should carefully consider this impact before requesting a distribution.**

#### Health Benefits at Retirement

Please note that service time from enrollment in the DCRP cannot be used to qualify for State Health Benefits Program (SHBP) or School Employees' Health Benefits Program (SEHBP) coverage at retirement; however, retirement system members who also participate in the DCRP through earnings in excess of the maximum wage will continue to earn credit toward SHBP coverage, if eligible at retirement, through their retirement system service.

Please contact your employer's human resources office or benefits administrator to ask about health benefit coverage options available in retirement.

### LIFE INSURANCE COVERAGE

**While employed**, a PERS, TPAF, PFRS, or SPRS member enrolled in the DCRP is covered by employer-paid life insurance, payable to their designated beneficiaries in the amount of 1½ times the annual

base salary on which DCRP contributions were based. This coverage is available without a medical examination to members under age 60. Newly enrolled members 60 years of age or older must undergo a medical examination to qualify.

DCRP members will continue to be insured for up to two years if on an approved leave of absence without pay for personal illness.

**Note:** The Internal Revenue Service classifies all life insurance coverage over \$50,000 as a fringe benefit subject to taxation. The amount of the life insurance coverage is not taxable, but the premium required to pay for the life insurance coverage is taxable. Members can elect to waive insurance coverage over \$50,000 at any time. For more information on this topic, see Fact Sheet #22, *Waiver of Non-Contributory Group Life Insurance over \$50,000*.

**Upon retirement**, life insurance under the DCRP reduces to 3/16 of the annual base salary on which DCRP contributions were based. This life insurance coverage is available in retirement only to:

- PERS, TPAF, PFRS, or SPRS members enrolled in the DCRP who are age 60 or older if the member has completed 10 years of participation in the DCRP, PERS, TPAF, PFRS, or SPRS;
- PERS, TPAF, PFRS, or SPRS members enrolled in the DCRP who are any age if the member has completed 25 years of participation in the DCRP, PERS, TPAF, PFRS, or SPRS.

The member must also have been an active employee in the twelve months immediately preceding the initial receipt of a retirement annuity payment.

### LONG-TERM DISABILITY COVERAGE

A member is eligible for employer-paid long-term disability insurance coverage after one year of participation in the DCRP.

The member becomes eligible for the disability benefit after six consecutive months of total disability due to an occupational or nonoccupational condition.

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To be considered totally disabled due to sickness or accidental bodily injury, the member must be unable to perform any and every duty pertaining to his/her occupation. The member need not be confined to home, but must be under a doctor's regular care.

If a member is totally disabled, the member is eligible to receive a regular monthly income benefit up to 60 percent of the base salary on which DCRP contributions were based during the 12 months preceding the onset of the disability. While disabled, the member's and the employer's mandatory contributions are automatically credited to the member's retirement account.

The monthly income benefit is offset by any other periodic benefit the member may be receiving, such as Workers' Compensation, short-term disability, or Social Security.

Eighteen months after the onset of long-term disability eligibility, the member must be unable to engage in any gainful occupation for which he/she is reasonably suited by education, training, or experience. Total disability is not considered to exist if the member is gainfully employed, incarcerated, or if the disability resulted from an act of war, or was intentionally self-inflicted.

Long-term disability benefits will be paid as long as the member remains disabled or until the member attains age 70. Should the member begin receiving payments under the retirement annuity, these benefits terminate.

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