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**A PUBLICATION OF THE NEW JERSEY DIVISION OF PENSIONS AND BENEFITS**


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## DEFINED CONTRIBUTION RETIREMENT PROGRAM (DCRP) IF INELIGIBLE FOR PERS OR TPAF

For Employees Below the Minimum Salary or Hours Required for PERS or TPAF

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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 (\$8,000 in 2013, 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 government or local education employees) but who earn salary of at least \$5,000 annually.

**This fact sheet addresses DCRP membership for employees who do not earn the minimum salary or work the minimum hours required for enrollment in the PERS or TPAF.**

- Employees who are already enrolled in a retirement system should refer to Fact Sheet #79, *DCRP for PERS, TPAF, PFRS, and SPRS Members*.
- Elected and appointed officials should refer to Fact Sheet #80, *DCRP for Elected and Appointed Officials*.

**Chapter 89, P.L. 2008**, established a minimum base salary requirements for eligibility for enrollment in the PERS or TPAF. Employees enrolled *on or after* November 2, 2008 and *on or before* May 21, 2010, must earn a minimum base salary of \$8,000\* or more per year to be eligible for enrollment in Tier 3 of the PERS or TPAF.

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\*The Tier 3 minimum base salary is subject to adjustment annually in accordance with changes in the Consumer Price Index (for 2012 the minimum annual base salary was \$7,800, for 2010 and 2011 the minimum annual base salary was \$7,700, for 2008 and 2009 the minimum annual base salary was \$7,500).

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Under Chapter 89, any employee otherwise eligible to enroll in Tier 3 of the PERS or TPAF who does not earn the required minimum annual salary, but earns a minimum base salary of \$5,000 or more, must be enrolled in the DCRP.

**Chapter 1, P.L. 2010**, established a minimum number of hours required for enrollment eligibility in the PERS or TPAF. Employees enrolled *after* May 21, 2010, must work a minimum of 35 hours per week if a State employee or 32 hours per week if a local government or local education employee to be eligible for enrollment in Tier 4 or Tier 5 of the PERS or TPAF.

Under Chapter 1, any employee otherwise eligible to enroll in Tier 4 or Tier 5 of the PERS or TPAF who does not work the required minimum hours, but earns a minimum annual base salary of \$5,000 or more, must be enrolled in the DCRP.

### ENROLLMENT

The employer is responsible for enrolling a DCRP eligible employee as of the starting date of employment — by using the online *DCRP Enrollment Application* available on the Employer Pensions and Benefits Information Connection (EPIC).

**Enrollment is required** for eligible employees. There is no option for waiver of DCRP enrollment for these individuals.

When enrolled in the DCRP, members contribute 5.5 percent of the base salary to a tax-deferred investment account established with Prudential Financial, which jointly administers the DCRP investments with the Division of Pensions and Benefits. Member contributions are matched by a 3 percent employer contribution.

Contributions are required from the date of DCRP eligibility. **If any back-deductions are owed, employers must schedule and remit them to the DCRP.**

#### **If Later Eligible for the PERS or TPAF**

**If an employee enrolled in the DCRP earns sufficient salary or works sufficient hours at a later date to qualify for enrollment in the PERS or TPAF, the employee will be enrolled in the PERS or TPAF.**

**Upon becoming a PERS or TPAF member, contributions to the DCRP under Chapter 89 or Chapter 1 will cease; however, prior contributions remain invested in the DCRP pending retirement or termination of employment.**

**Contributions to the DCRP cannot be transferred to the PERS or TPAF, and service credit as a DCRP member is not eligible for purchase of service credit.**

A PERS or TPAF employee may once again become eligible for the DCRP if:

- The annual salary falls *below* the minimum salary required for PERS or TPAF Tier 3 membership; deductions will cease and the member will contribute to the DCRP plan.
- The number of work hours falls *below* the minimum hours per week required for PERS or TPAF Tier 4 or Tier 5 membership; deductions will cease and the member will contribute to the DCRP plan.
- The annual salary is in excess of the “maximum compensation” limit (members enrolled in the PERS or TPAF *on or after* July 1, 2007) under Chapter 103, P.L. 2007 — see Fact Sheet #79, *DCRP for PERS, TPAF, PFRS, and SPRS Members*.

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- The employee becomes a State or local elected or appointed official — see Fact Sheet #80, *DCRP for Elected and Appointed Officials*.

### Transfer of PERS or TPAF Membership

Employees who are PERS or TPAF members and transfer to another PERS or TPAF position are subject to the minimum salary or minimum hours of their existing PERS or TPAF Membership Tier if any of the following situations apply:

- The member is transferring to a PERS or TPAF eligible position without a break in service; or
- Any break in service is 24 consecutive months or less from the date of the last PERS or TPAF pension contribution and the account has not been withdrawn; or
- Any break in service is 24 consecutive months or less from the end of an approved leave of absence; or
- You lose your job through no fault of your own (laid off or your position is abolished — not terminated voluntarily or for cause) and you return to PERS or TPAF employment within 10 years of your termination date.

If the exceptions described above apply, the PERS or TPAF membership tier minimum salary/work hour requirements apply as follows.

- **Membership Tier 1:** Members who enrolled *prior to* July 1, 2007 — the minimum base salary requirement for enrollment is \$1,500 per year for the PERS and \$500 for the TPAF.
- **Membership Tier 2:** Members who were eligible to enroll *on or after* July 1, 2007 and *prior to* November 2, 2008 — the minimum base salary requirement for enrollment is \$1,500 per year for the PERS and \$500 for the TPAF.
- **Membership Tier 3:** Members who were eligible to enroll *on or after* November 2, 2008 and *on or before* May 21, 2010 — the minimum base salary requirement for PERS or TPAF enrollment is \$8,000 per year (subject to adjustment in future years).
- **Membership Tier 4 or Tier 5:** Members who were eligible to enroll *after* May 21, 2010 — must work a minimum of 35 hours per week if a State employee or 32 hours per week if a local government or local education employee.

If a member transfers into the PERS or TPAF after a break in service that *falls beyond* the exceptions described above, **the member will be subject to the Tier 4 or Tier 5 minimum hours requirement** regardless of the previous membership tier status.

**If the work hours fall below the Tier 4 Tier 5 minimum requirement**, the employee will be ineligible for transfer in the PERS or TPAF but will be eligible for DCRP enrollment if the annual salary is at least \$5,000.

### PERS and TPAF Maximum Wage

In addition Tier 2, Tier 3, Tier 4 and Tier 5 members are subject to a maximum wage limit for PERS or TPAF pension contributions, which is subject to annual adjustment. The maximum wage limit for 2013 is \$113,700. Tier 2, Tier 3, Tier 4, and Tier 5 members who earn in excess of the annual maximum wage will be enrolled in the DCRP — in addition to the PERS or TPAF. See Fact Sheet #79, *Defined Contribution Retirement Program for PERS, TPAF, PFRS, and SPRS Members*, for more information.

**Vesting**

Employer contributions are not vested in a DCRP member's account until after the member commences the second year of employment unless the member, at the time of initial employment, either (1) participates in a program substantially similar to the retirement program, or (2) is a member of another State-administered pension fund or retirement system.

As a vested member, you have a right to a benefit at retirement based on both the employee and employer contributions to the DCRP.

**Withdrawal**

Withdrawal occurs when a non-vested DCRP member separates from covered employment and submits a request to Prudential for a withdrawal of contributions. Only the member's contributions are available for withdrawal — employer contributions are forfeited. After a withdrawal, the individual is eligible for reenrollment in the DCRP, or enrollment in another New Jersey State-administered retirement system, upon a return to covered employment.

**Retirement**

Retirement occurs when a vested DCRP member separates from covered employment and elects to receive a distribution of funds containing both employer and employee contributions and interest. This action deems the former participant as "retired" and, therefore, ineligible to re-enroll in the DCRP or participate in *any other* New Jersey State-administered retirement system.

**APPLYING FOR 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. However, lump-sum cash distributions to members under the age of 55 are limited to the member's contributions and earnings. The remaining employer contributions and earnings are only available after age 55.

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.

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

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**LIFE INSURANCE COVERAGE**

While employed, a DCRP member is covered by employer-paid life insurance, payable to 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:

- Members age 60 or older if the member has completed 10 years of participation in the DCRP;
- Members of any age if the member has completed 25 years of participation in the DCRP.

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

**Conversion**

Other than the retired insurance benefit described above, life insurance coverage under the DCRP ceases 31 days after termination of employment. During the 31-day period following termination of employment, a member may convert existing group life insurance coverage (less any amount of coverage carried over into retirement) into an individual whole life policy, without medical examination. For more information, see Fact Sheet #13, *Conversion of Group Life Insurance*.

**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.

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.

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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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