

**HEALTHCARE COST
CONTAINMENT COMMITTEE**



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**STATE OF CONNECTICUT
HEALTHCARE POLICY & BENEFIT SERVICES DIVISION
OFFICE OF THE STATE COMPTROLLER**

DIVISION MEMORANDUM 2012-07

December 6, 2012

**ATTENTION: Human Resource and Benefit Officers
University of Connecticut
Connecticut State Universities
Community Colleges
Participants in the Alternate Retirement
Program and 403(b) Plans**

**SUBJECT: Amendment of the 403(b) Plan
Retirement Distribution Strategies for Retired Faculty
who return to Part-time Teaching**

I. Introduction

In recent years an increasing number of faculty members have retired from full-time service and then returned to the same college or university as adjunct faculty. This trend presents special challenges for faculty members with retirement assets in defined contribution plans, which include the Alternate Retirement Program (ARP), the 403 (b) and the 457 Plans. With two minor exceptions, noted below Internal Revenue Service requirements applicable to such plans prohibit an employee from receiving a distribution from these plans during a period of post-retirement employment with the same employer.

While the Internal Revenue Service is currently reviewing the issue of phased retirement under defined contribution plans, current policies have not kept pace with this growing trend in higher education. Our 457 Plan allows in-service distributions to employees who are age 70 and ½ or older; however, this provision does not benefit younger retirees. The Internal Revenue Code allows 403(b) plans to authorize in-service distributions after age 59 and ½, but until recently the State of Connecticut 403(b) plan document did not have such a provision. This memorandum discusses the importance of the recent addition of an in-service distribution provision to 403(b) Plan.

II. IRS Restrictions on In-Service Distributions

As noted above, Internal Revenue Code provisions applicable to defined contribution plans do not allow receipt of benefits during a phased retirement, where the employee stops working full-time, “retires”, and then returns to work on a part-time basis with the same employer. The IRS has issued guidance to the effect that someone who immediately returns to work in the same or similar capacity with the same employer on a reduced schedule after a “retirement” is not considered to have experienced a true separation from service and, therefore, is ineligible to take a distribution from his or her defined contribution accounts.

These restrictions pose difficulties for retirees in higher education who, increasingly, want to teach one or two courses per year in retirement and expect to use money from their ARP or 403(b), or 457 plan accounts to supplement their income. For this reason faculty members who “retire” from full-time service under the ARP with an expectation of returning to state service on a part-time basis at some time in the future must take care to map out a retirement distribution strategy **before** entering into any discussion about continued employment.

III. 403(b) Plan Amendment

The Comptroller recognizes that regulatory restrictions on distributions from defined contribution plans create special challenges for those who retire from full-time service but desire to continue teaching on a part-time basis. To accommodate the needs of such retirees the Comptroller recently amended the 403(b) plan document to allow individuals age 59 and ½ years or older to take distributions from that plan while still employed with the State of Connecticut.

Human Resources personnel who deal with faculty members contemplating retirement should be aware of the restrictions on plan distributions during active, “post-retirement” employment—even on a part-time basis. It is important for retiring faculty members to consider how they use their defined contribution plan assets to meet their retirement income needs **before** pursuing discussions about re-employment.

III. Plan Transfer and Distribution Options

There are many benefits to keeping assets in State of Connecticut defined contribution plans after retirement. Retirees will continue to have access to low-cost institutionally priced investment options, to the Morningstar managed portfolios, and to ING’s salaried investment advisers. With some pre-retirement planning, higher education employees who are considering future part time teaching should be able to enjoy unfettered access to their retirement funds.

To ensure the maximum flexibility, a married retiring faculty member in the ARP may want to consider using \$10,000 of his or her ARP funds to purchase a joint and survivor annuity to secure a surviving spouse’s health benefit coverage and then transfer all of his or her remaining ARP (and 457 plan) funds to the 403(b) plan. In this manner, a retiree aged 59 and ½ or older would be able to access plan assets at any time, regardless of post-retirement employment status. Because all three plans have the same investment

options, consolidation of all defined contribution assets in the 403(b) plan upon retirement would simplify management of these assets.

In order to take advantage of this option, the employee would need to be enrolled in the 403(b) plan before retirement. If he or she waits to join the 403(b) plan until re-employment occurs, distributions from the ARP and 457 Plan or transfers to the 403(b) Plan will not be permitted. (A faculty member aged 70 and ½ or older would still be able to access 457 Plan assets without restriction.)

Alternatively, a retiring ARP member may want to purchase an annuity or commence a systematic withdrawal from any of the State of Connecticut defined contribution plans before negotiating for or returning to part-time service. We have been advised that such a pre-arranged distribution scheme would not have to be disturbed during subsequent employment.

III. Conclusion

Our office, in collaboration with ING, will be available to conduct informational sessions with Human Resources and Benefits personnel at all institutions of higher education regarding retirement distribution issues for retiring faculty who contemplate a future return to part-time teaching.

Human Resources and Benefits personnel with questions should e-mail amy.cason@po.state.ct.us or telephone 860-702-3553. Retiring faculty members who may be considering post-retirement teaching engagements should contact your ING financial adviser for guidance in selecting retirement distribution options before making any arrangements for a return to service.

Very truly yours,

A handwritten signature in cursive script that reads "Thomas C. Woodruff".

THOMAS C. WOODRUFF, Ph.D.
Director