Vesting

MRT Administrative Manual

Everence

Vesting gives employees a right to employer-provided assets over time, which can give the employees an incentive to perform well and remain with a company. The vesting schedule set up by the employer determines when employees acquire full ownership of their retirement accounts. Employee and rollover contributions to the Plan are fully vested at all times.

401(a) Plan – All employer contributions are immediately 100% vested.

403(b) Plan – All employer contributions are immediately 100% vested unless the employer establishes a vesting schedule in their adoption agreement.

How does vesting work?

Vesting is based on the employee's hire, termination, and if applicable, rehire date. Each year the employee reaches the hire anniversary date, the participant is credited with a year of service for vesting purposes. Once the employee has received credit for the number of years of service in the vesting schedule, the participant will be fully vested.

If the participant terminates employment prior to a hire anniversary date, the participant does not receive credit for a year of service. If the participant is not fully vested at the time of termination, the vested percentage is the amount available to the employee to withdraw, and the remainder is forfeited to the employer to reduce future employer contributions for other employees.

If the participant terminates employment and then, within 12 months of the termination date, is rehired by the employer, the participant will receive credit for an entire year of service once the participant reaches their original hire date anniversary. If the participant is rehired more than 12 months after terminating employment, the participant is treated as a new employee for vesting purposes.

The participant will become 100% vested if the participant dies, is disabled, or retires on or after attaining age 65.

Examples:
The employer establishes a vesting schedule for employer contributions in their 403(b) as follows:

Years of service	**Vesting %**
0	0
1	20
2	40
3	60
4	80
5	100

The employer requires an employee to have one year of service to be eligible for employer contributions. Emily is hired July 1, 2019. She becomes eligible to receive employer contributions on July 1, 2020. Because Emily has reached her hire anniversary date, she receives one year of service credit for vesting purposes and will be 20% vested. If Emily is still employed on July 1, 2024, she will be 100% vested.

July 1, 2019	July 1, 2020	July 1, 2021	July 1, 2022	July 1, 2023	July 1, 2024
0%	20%	40%	60%	80%	100%

Termination scenario – If Emily terminates employment July 15, 2022, she will have passed her third anniversary and will be 60% vested. If her employer contribution balance is $3,500, she will be able to withdraw $2,100. The remaining $1,400 will be forfeited to the employer to reduce future employer contributions. Note that forfeitures do not automatically occur unless the participant requests a distribution.

Rehire within 12 months scenario – Emily terminates employment July 15, 2022 but is rehired April 30, 2023. Because she was hired within 12 months of her termination date, on July 1, 2023, Emily will have 4 years of service and will be 80% vested.

Rehire after 12 months scenario – Emily terminates employment July 15, 2022 and is rehired Dec. 1, 2023. Because she was rehired more than 12 months after her termination date, she is 60% vested for her current employer contribution balance and 40% will be forfeited. If Emily becomes eligible for employer contributions, she will not be 100% vested on the new contributions until Dec. 1, 2028.

Reporting information to Empower

To properly administer a vesting schedule, you need to provide hire, termination and rehire dates to Empower. How you provide the information will depend on the method you use to submit contributions.

Using forfeitures to reduce employer contributions

If you have a vesting schedule and you have employees who terminated service prior to being 100% vested, you may have a forfeiture balance you can use to reduce employer contributions. The employer is required to use forfeitures no later than Dec. 31 of the year after the forfeiture occurred. If you use one of the electronic contribution methods discussed above, you will have the option to use the forfeiture balance to reduce the amount charged to your bank account on the final confirmation screen before submitting payroll.

If you are not using an electronic contribution method, you can reduce the check amount by the amount of the forfeiture balance and include a letter of instruction asking Empower to use the forfeiture balance. For example, assume you have a forfeiture balance of $500. The employer contribution you need to make is $5,000. You write a check for $4,500 and include a letter of instruction to Empower to use the $500 forfeiture balance to make up the difference.

The vesting process

Employer responsibilities:

- Report to Empower hire, termination and rehire dates.
- Use available forfeitures to reduce future employer contributions.

Empower Retirement responsibilities:

- Based on information provided by the Employer, calculate the vesting percentage for employer contributions.
- Process forfeitures at the time a participant requests a distribution where the participant is not 100% vested.