HOW THE VESTING RULES WORK FOR COMPANY RETIREMENT PLANS

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Employees leaving their jobs are often surprised to discover they aren't entitled to the full balance of their company plan account. The reason is that some plans impose a vesting rule on certain types of contributions.

What do the vesting rules mean? They tell you how much of your plan benefit you actually own and cannot be taken away from you. If you're fully vested, you're entitled to your entire benefit. If partially vested, you only get a portion of your benefit. And, if you're 0% vested, you receive no benefit at all. In the case of a partially-vested or 0%-vested benefit, the unvested portion of your benefit will be forfeited.

You receive vesting credit based on your service with your employer. Most plans award you with a year of vesting service for each 12-month period that you work at least 1,000 hours. Other plans measure vesting service based on the total period of your employment from date of hire to date of separation. Check the plan's written summary or speak with the plan administrator or HR for more details.

In a defined contribution plan like a 401(k), 403(b) or 457(b), employee contributions (pre-tax deferrals, Roth contributions and after-tax contributions), and associated earnings, are immediately 100% vested. Employer matching or profit sharing contributions, and their earnings, may be immediately 100% vested or subject to a vesting schedule.

If your plan uses a vesting schedule, it can be either "cliff vesting" or "graded vesting," as follows:

Years of Service	Cliff Vesting	Graded Vesting
1	0%	0%
2	0	20
3	100	40
4	100	60
5	100	80
6	100	100

Example: Terrance participates in a 401(k) plan with a graded vesting schedule for employer matching contributions. He leaves his job after three years of service with $40,000 in his pre-tax deferral account and $8,000 in his match account. Terrence can receive a total distribution of $43,200, which represents 100% of his deferral account ($40,000) and 40% of his match account ($3,200). The unvested part of his match account ($4,800) will be forfeited.

Most defined benefit pension plans use a 5-year cliff vesting schedule where benefits become 100% vested after five years of service.

By law, your benefit under any company plan must become 100% vested, regardless of years of service, when you reach the plan's "normal retirement age" (typically age 65) or when the plan terminates. Many plans also provide for 100% vesting if you die or become disabled.

Vesting rules don't apply to IRAs, including SEP or SIMPLE IRAs. You can receive the full value of your IRA account at all times.

If you're thinking about leaving your job, make sure you know about the vesting schedule that applies to your plan. It may pay to stick it out a little longer to get additional vesting service. Otherwise, you may lose out on a valuable benefit.