



Employment After Retirement Restrictions

Information for:
All Funds

If you are considering working after retirement, you should be aware of the restrictions imposed by laws and regulations governing post-retirement employment. It is your responsibility to inform your prospective employer that you are receiving retirement benefits from a New Jersey State-administered retirement system, and to understand the impact employment will have on those retirement benefits. In some instances your retirement benefits may be suspended or even canceled entirely; if this occurs, you will be responsible for the repayment of any benefits you were not entitled to receive. You may also be required to re-enroll in your former retirement system or a different retirement system and make pension contributions into that system.

The New Jersey Division of Pensions & Benefits (NJDPB) and the Boards of Trustees of the various retirement systems have a responsibility to preserve the fiscal integrity of the retirement systems and to guard them against abuse. Opportunities for retired employees to resume public employment while continuing to collect retirement benefits could be viewed in certain circumstances as abusive.

While this fact sheet provides general information concerning employment restrictions for retired members of the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF), Police and Firemen's Retirement System (PFRS), State Police Retirement System (SPRS), and Judicial Retirement System (JRS), it is not intended to

address every situation. You will be responsible for the refund of overpaid benefits and the payment of pension contributions based on the violation of the law. Your prospective employer should be able to tell you if the employment you are considering would not be permissible due to the restrictions imposed by laws and regulations governing post-retirement public employment in New Jersey. However, if there is any doubt, you should have the prospective employer contact the NJDPB prior to your accepting public employment after retirement. If you have additional questions regarding the content of this publication, contact the NJDPB prior to accepting employment. Failure to understand these restrictions may result in suspension and repayment of your retirement benefits and subsequent payment of pension contributions.

Your retirement benefits are governed by New Jersey statutes as well as the Internal Revenue Code (IRC). The PERS, TPAF, PFRS, SPRS, and JRS are established as qualified governmental defined benefit plans in accordance with IRC Sections 401(a) and 414(d). New Jersey State-administered retirement systems generally do not permit the payment of retirement benefits without a complete severance from your employer. In order to preserve the qualified status of these plans and to protect retirees from a 10 percent early distribution tax penalty on their monthly pensions, the NJDPB was required to adopt and to enforce regulations to ensure compliance with the IRC requirements.

If you want to supplement your retirement income, employment with a private company, the federal government, or another state will not affect your right to receive your New Jersey retirement benefits, with the following exceptions:

- Retirees who are receiving a Disability Retirement allowance from either the PERS or TPAF may have their retirement allowance adjusted if they have earnings from any occupation or employment (public or non-public) after retirement. See the "Special Provisions for Disability Retirees" section and the *Disability Retirement Benefits* Fact Sheets for the fund in which you are enrolled for further information. These fact sheets are available on our website at: www.nj.gov/treasury/pensions
- Members of the JRS who are collecting JRS retirement benefits are restricted from the practice of law before the courts of this State. Please contact the Administrative Office of The Courts if you require additional information regarding this restriction.

RETURN TO WORK WITH YOUR FORMER EMPLOYER

If you are considering returning to work with your former employer, you must first determine if you have already met the requirements of a "bona fide severance of employment" as defined under N.J.A.C. 17:1-17.14(a)2. Bona fide severance of employment

means there was a complete termination of the employer/employee relationship for a period of at least 180 days from the date of your retirement.¹ The following does not qualify as a complete severance of your employment relationship within the 180-day period:

- Re-employment in a part-time position;
- Re-employment in a position that is covered by a different retirement system;
- A change in title;
- Re-employment as a contract employee, a leased employee, or an independent contractor; or
- Termination of employment with a pre-arranged agreement for re-employment.²

Re-employment by a different unit of the same public employer within 180 days of retirement, whether in a position covered by the same retirement system or a different retirement system, is considered to be employment by the same employer.

Example 1: A State employee retires and returns to work as a full- or part-time employee or independent contractor at any State agency, including a State university, within 180 days of the retirement date. A bona fide severance of employment has not occurred.

Example 2: A TPAF member retires from a school district and returns as a part-time teacher in the same district within 180 days following retirement. A bona fide severance of employment has not occurred.

Further, if an employee holds more than one position with the employer, he or she must separate for a period of 180 days from all employment in order to retire,

even if the positions are covered by different retirement systems, or the second position is not subject to pension contributions.

Example 3: A municipal fireman enrolled in the PFRS also works in a PERS position for the same municipality. This individual must terminate both positions in order to qualify for retirement benefits from the PFRS. The individual must be separated from both positions for at least 180 days prior to any consideration of return to employment in the non-PFRS position (including the previously held PERS position).

Example 4: A building inspector enrolled in the PERS works part-time for several municipalities. This individual must terminate from all PERS-eligible positions in order to qualify for retirement benefits from the PERS (including any additional positions acquired after May 21, 2010, for which he or she may not currently be PERS-eligible). The individual must be separated from all positions for at least 180 days after retirement prior to any consideration of return to employment with any of these municipalities.

Volunteer Service

It remains the policy of the State to encourage volunteering for community service. The bona fide severance of employment requirement, however, does raise significant questions regarding eligibility to provide service to a former employer as a volunteer, i.e., without compensation for service. A bona fide severance of employment for a member to be eligible for retirement benefits is required by the Internal Revenue Service (IRS) to maintain the tax-qualified status of the pension plans. Failure to have plan requirements for a bona fide severance of employment, or

failure to apply those plan provisions uniformly once they are in place, could result in the pension plans losing their tax-qualified status. In addition, the bona fide severance of employment requirement has increased concerns regarding potential consequences to retirees providing volunteer services if this requirement is not satisfied. Refer to the “Consequences of Returning to Work with your Former Employer within 180 Days of Retirement” section.

The IRS guidance on bona fide severance of employment requires a complete termination of the employment relationship. The cessation of compensation alone, where services continue to be provided as a volunteer, does not automatically satisfy this requirement. Therefore, if volunteer service (a) is rendered by a retired member to the former employer during the 180-day period and (b) that service satisfies the IRS definition of employment, then a bona fide severance of employment has not occurred.

This rule applies where the volunteer service continued or undertaken by the retired member within the 180-day period is for the same employer for which the retired member worked before retirement. A retiree who seeks to become a volunteer must ascertain whether the volunteer services are being provided to the same employer from whom he retired or to a different entity. For example, many volunteer fire companies and rescue squads are organized separately from the municipal government as non-profit entities, perhaps with a different federal ID number. It is likely that such non-profit entities and the municipal government would not be considered the same employer.

In cases where the volunteer services are to be provided to the same employer, an issue also arises

¹ Employees that work a 10-month school year and retire on July 1 or August 1 must count the 180-day severance of employment from the start of the following normal school year in September.

² The IRS does not consider a pre-arranged return to public employment to be a bona fide severance of employment, no matter how long the break in service. If you and your employer made an arrangement prior to your retirement to return to employment in any capacity, at any future time, including as a volunteer — regardless of whether the position is covered by the former retirement system — your employment relationship will not be completely severed and your retirement will be considered non-bona fide, or invalid.

es whether the volunteer services constitute employment under the IRS rules. There are a number of factors which must be considered in determining whether or not employment exists for purposes of the IRS. The retired member should consult with the employer's human resources office regarding whether these factors lead to a determination of employment.

Retirees must also keep in mind that volunteer work must be performed without promise or expectation of compensation. If volunteering today provides a benefit such as helping to secure a paid position in the future, that could be considered compensation.

If you return to employment as a volunteer with your former employer within 180 days of retirement, your severance will not be considered bona fide.

Consequences of Returning to Work with your Former Employer within 180 Days of Retirement

If you return to service with your former employer prior to satisfying the requirements of a bona fide severance of employment, you will be required to repay all retirement benefits received. You may be required to re-enroll in the same or a different retirement system as of the date of re-employment. In the event you are required to participate in the same or different retirement system, pension contributions will be deducted from your salary retroactive to the date of enrollment through the date of termination of employment. If this occurs, your retirement allowance may be suspended until you retire from employment and re-apply for retirement benefits.

If you return to service with your former employer af-

ter satisfying the 180-day requirement of a bona fide severance of employment, your employer may be required to re-enroll you if your position qualifies for enrollment in your former retirement system. If this occurs, your retirement allowance will be suspended until you retire from employment and re-apply for retirement benefits. See the "Re-Enrollment in the Retirement System Required" section. If your new position does not qualify for participation in your former retirement system, you will continue to receive your retirement benefits, but you will not be eligible to participate in any other retirement system which would normally apply to your new employment.

SPECIAL PROVISIONS RELATED TO BONA FIDE SEVERANCE OF EMPLOYMENT

Age-Related Mandatory Retirement in the SPRS, PFRS, and JRS

The 180-day requirement does not apply to individuals who were required to retire under the age-related mandatory retirement provisions of the pension statutes relative to PFRS, SPRS, or JRS. In these situations, the age-related mandatory retirement is considered a bona fide severance of employment.

Education Employees – Critical Need Employees

New Jersey statutes provide an exemption from pension re-enrollment for certain retirees of the TPAF or PERS who are certificated superintendents or certificated administrators, and who are hired by the Department of Education or a local board of education in a position of critical need. However, termination of

employment with a pre-arranged agreement to return to a position of critical need will not be considered a bona fide severance of employment.³ In addition, while New Jersey law permits these retirees to return to employment with the same employer after 120 days without re-enrollment into the retirement system or suspension of retirement benefits, the 180-day requirement still applies for tax purposes when considering the pension as an in-service distribution. A retiree who is under the age of 59 1/2 and returns to employment with the same employer prior to a 180-day break in service may therefore be responsible for excise tax penalties under IRS regulations. The retiree must report the early distribution tax on IRS Form 5329. The NJDPB is required to report the early distribution on the retiree's Form 1099-R.

Education Employees – Coaches

N.J.S.A. 18A:66-53.2(c) permits a former member of the TPAF, who has been granted a retirement allowance other than a Disability Retirement, to become employed again with the former employer as a coach of an athletics activity if the following conditions are met: (1) the re-employment commences after the retirement allowance becomes due and payable;⁴ (2) the former member had attained normal retirement age as of the date of retirement;⁵ and (3) the compensation for the employment is less than \$15,000 per year. Because all such situations would involve retirees over 59 1/2, there would not be any excise tax penalties on early distributions.

³ Service limitations apply to critical need employees hired by local boards of education. A contract issued by a local board of education to a retiree employed as a certificated superintendent or a certificated administrator may not exceed one year, but may be renewed for one additional year with that board of education. No additional service may be provided to that board of education beyond the maximum period of two years. Attempts to continue such service beyond the two-year period as an independent contractor, as a leased employee from another board of education, or through a third-party employer are considered a violation of the statute.

⁴ Either more than 30 days after the date of retirement, or more than 30 days after the retirement has been approved by the Board of Trustees of the TPAF, whichever is the later date of the two.

⁵ Normal retirement age for members of the TPAF means age 60 for persons who became members before November 2, 2008 (Tiers 1 and 2); age 62 for persons who became members on or after November 2, 2008 (Tiers 3 and 4); or age 65 for persons who became members on or after June 28, 2011 (Tier 5).

Class Three Special Law Enforcement Officer

P.L. 2016, c. 68 (Chapter 68) amended N.J.S.A. 40A:14-146.10 and 40A:14-146.11, and established that retired law enforcement officers of the PFRS and SPRS may provide security to public and private schools and county colleges on a part-time basis as Class Three Special Law Enforcement Officers. The retired officer must have a bona fide severance of employment, be under age 65, and served as a duly qualified, fully-trained, full-time officer in a municipality or county, or as a member of the State Police. Retired officers also must have been in good standing when they separated from that prior service. Retired officers employed as Class Three Special Law Enforcement Officers are not eligible for health benefits and may not be enrolled in any New Jersey State-administered retirement system.

Recalled Judges

Pursuant to N.J.A.C. 17:1-17.14(c)2, the 180-day requirement of a bona fide severance does not apply to a JRS retiree, a retired Workers' Compensation Judge, or a retired Administrative Law Judge, provided the judge attained age 60 prior to retiring from the JRS or PERS, and was recalled to service under one of the following statutory provisions:

N.J.S.A. 43:6A-13 — Provides for the recall of retired justices and retired judges of the JRS by the Supreme Court for temporary service and permits the retiree to continue to receive retirement benefits from the JRS. The retired justice or judge may be paid a per diem allowance fixed by the Supreme Court, which, when added to the retirement allowance, cannot exceed the current salary of a justice or judge of the court from which he or she retired.

P.L. 2005, c.6 (Chapter 6) — Allows retired Administrative Law Judges and Workers' Compensation

Judges to be recalled for service with the judge's consent. It amended N.J.S.A. 52:14F-4 and N.J.S.A. 34:15-49, which requires these judges to retire upon attaining age 70, to provide that upon such recall the retired Administrative Law or Workers' Compensation Judge will have all the powers of such a judge and will be paid a per diem allowance to be fixed by the Director/Chief Administrative Law Judge or the Director/Chief Judge of the Division of Workers' Compensation, as applicable. The recalled judge will be reimbursed for reasonable expenses actually incurred in connection with the assignment and will be provided with such facilities as may be required in the performance of the judge's duties. Those per diem compensation and expenses will be paid by the State. Payment for services and expenses will be made in the same manner as payment is made to the judges of the Office of Administrative Law or Division of Workers' Compensation, as applicable, from which the judge retired. Because all these provisions cover recalls of a judge who attained at least age 60 at retirement, there would not be any excise tax penalties on early distributions (due to the age 59 1/2 exception).

RETURN TO WORK WITH ANOTHER NEW JERSEY PUBLIC EMPLOYER

Similar to the bona fide severance requirement of 180 days, if you are considering returning to employment with your former employer, retirees are required to satisfy a separation from service period before returning to public employment in New Jersey with a different employer in a position covered by a different retirement system. The NJDPB sends written notification that your retirement is approved by the Board of Trustees; you must wait until at least 30 days after the date of this notification or 30 days following your date of retirement, whichever is later, before you

agree to accept employment with another employer in a position which is not covered by your retirement system. Thereafter, your retirement benefits are finalized and become due and payable.⁶

If there was a pre-arrangement at the time of your retirement to return to a position with another employer, and the position would have been covered by the same retirement system had your retirement not occurred, your retirement may be canceled and you may be required to continue as an active employee under your original retirement account. If your retirement allowance is canceled, you must submit a retirement application to the NJDPB when your employment ends in order to receive retirement benefits.

Example 5: *A Tier 1 PERS employee⁷ retires from Employer A on December 1, 2015, and commences employment on January 2, 2016, with Employer B in a part-time PERS position paying \$20,000 per year. The individual arranged the employment with Employer B at or about the time of retirement. Since Tier 1 PERS employees are eligible to continue participation in the retirement system as part-time employees, Employer B should have completed a Report of Transfer/Multiple Enrollment Form for the individual to continue in the retirement system for the new position. In this example, the PERS retirement benefit will be canceled and the individual will be required to reimburse the retirement system for all retirement benefits received. PERS pension contributions will be required in the new position from the date of hire. There is no limitation on the amount of benefits that may be recovered by the retirement system in these situations. Further, the employee must terminate employment with Employer B and file for retirement prior to the effective date of the new retirement in order to collect benefits.*

⁶ Employees who work a 10-month school year and retire on July 1 or August 1 must count the 30-day period from the start of the following normal school year on September 1.

⁷ A Tier 1 PERS employee refers to an individual who was enrolled in the PERS prior to July 1, 2007.

Example 6: A Tier 1 PERS employee retires from Municipality A on July 1, 2014, and begins employment in a position covered by the Defined Contribution Retirement Plan (DCRP) as a Business Administrator with Municipality B on August 10, 2014, having arranged for the employment at or about the time of retirement from Municipality A. As a Tier 1 member of PERS, the position of Business Administrator qualifies the employee for continued participation in the PERS; therefore, the new employer should have completed a Report of Transfer/Multiple Enrollment Form for the individual to continue in the retirement system for the new position. In this example, the PERS retirement benefit will be canceled and the individual will be required to reimburse the retirement system for all retirement benefits received. PERS pension contributions will be required in the new position from the date of hire. There is no limitation on the amount of benefits that may be recovered by the retirement system in these situations. Further, the employee must terminate employment with the new employer, and file for retirement prior to the effective date of the new retirement in order to collect benefits.

WORKING AS A PUBLIC EMPLOYEE AFTER RETIREMENT

The following assumes that you have already met the 180-day requirement for bona fide severance of employment if the new position is with the former employer, or that you are well past the date at which your retirement benefits became due and payable⁸ if your new position is with a different employer. Your employer is required to report your employment to the NJDPB.

Re-Enrollment in the Retirement System Required

Re-enrollment in your former retirement system is generally required if you accept full-time employment in a position covered by that system.⁹ The NJDPB routinely compares Department of Labor and Workforce Development records with retired payroll records. The audit performed as a result of this review will target retired public employees working more than 25 hours per week or earning a salary substantially similar to that earned in active employment prior to retirement. If, as a result of an audit, your employment is deemed to satisfy eligibility for enrollment in your former retirement system, you will be required to reimburse all of your retirement benefits received after the date of your required re-enrollment until you retire again. You will also be responsible for the payment of pension contributions from the date of re-enrollment through the date of termination of the most recent employment.

If you are required to be re-enrolled in your former retirement system, your retirement allowance and any related retired health benefits will be canceled for the duration of your employment. In certain instances you may be required to prove insurability to have group life insurance coverage. In the event of your death during the second membership, no benefits from either the previous membership or retirement are payable (except for the return of uncollected contributions). This includes option settlements and death benefits.

Your date of re-enrollment is determined under the general enrollment procedures of the retirement system and you are treated as an active employee in all respects. You will be enrolled in a new retirement system account under the membership tier in effect

at the time you returned to employment. When you retire for the second time, any additional allowance due as a result of the second period of service is generally determined in accordance with rules governing your new membership tier. You may also elect to withdraw the contributions associated with the second period of service. You will be required to file an application with the NJDPB in order to initiate retirement benefits or the withdrawal of contributions relating to your new membership account.

PERS Retirees Hired to an ABP Position

A PERS, TPAF, or PFRS member hired to an Alternate Benefits Program (ABP)-eligible position is permitted to waive ABP membership and instead remain covered under the PERS while working in the ABP position. Waivers of ABP membership are irrevocable and permanent regardless of the ABP position, hiring institution, or any break in ABP-/PERS-eligible employment. As a result, a PERS member who retires from an ABP-eligible position must be reenrolled in the PERS if he or she returns to employment in any ABP-eligible position and meets the requirements for PERS enrollment.

Special Provisions for Disability Retirees

If you retired on an Ordinary Disability or Accidental Disability Retirement,¹⁰ before you can return to a position covered by your former retirement system, you must first be approved for re-employment by the Board of Trustees. If approved to return, your original retirement system account and membership tier are restored. Enrollment criteria for the original membership tier also apply. When membership is restored, pension contributions resume and you are treated as an active employee in all respects.

⁸ Either more than 30 days after the date of retirement, or more than 30 days after the retirement has been approved by the Board of Trustees, whichever is the later date of the two.

⁹ PERS and TPAF statutes define full-time as 35 hours per week for State employees and 32 hours per week for local government or local education employees.

¹⁰ Tier 4 and Tier 5 PERS or TPAF members (enrolled in the PERS or TPAF after May 21, 2010) are not eligible for Ordinary Disability or Accidental Disability Retirement; however, they may qualify for long-term disability insurance benefits.

If you are receiving Disability Retirement benefits from the PERS or TPAF, your retirement allowance may be adjusted if you have earnings from any employment (public, private, or self-employment) after retirement. See the *Disability Retirement Benefits* Fact Sheet for your retirement system for additional information.

Special Provisions for PFRS Retirees

N.J.A.C. 43:16A-3.1 addresses the special situation of a PFRS retiree who is appointed to a position with a law enforcement unit or firefighting unit with administrative or supervisory duties over police officers and/or firefighters (such as Police Director, Director of Public Safety, etc.). If a PFRS retiree is appointed to this type of position within six months after retirement, the retirement allowance is suspended and the retiree must re-enroll in the PFRS.

ENROLLMENT IN THE RETIREMENT SYSTEM NOT REQUIRED

The following assumes that you have already met the 180-day requirement for bona fide severance of employment if the new position is with the former employer, or that you are well past the date at which your retirement benefits became due and payable,¹¹ if your new position is with a different employer. Your employer is required to report your employment to the NJDPB.

If you return to work in a position covered by a different New Jersey State-administered retirement system, your retirement allowance may continue and you can receive salary from the employment; however, you cannot become a member of the other retirement system.

SPECIAL PROVISIONS FOR ELECTED OFFICIALS

Elected officials are also subject to the 180-day bona fide severance of employment as defined under N.J.A.C. 17:1-17.14(a)2. With the repeal of N.J.S.A. 43:15A-47.2 and N.J.S.A. 43:16A-5.1, members of the PERS and PFRS can no longer retire while holding an elected public office and collect a retirement allowance.¹²

***Example 7:** An individual contributes to the PERS as both a full-time State employee and as an elected official of a municipality.¹³ In order to retire and start collecting PERS retirement benefits, the individual must fully separate from both PERS positions, including the elected office. Waiving the receipt of any compensation for the elected office while continuing to serve in the elected office would not constitute a bona fide severance of employment. Under these circumstances, the member would not be entitled to claim volunteer status as an elected official and receive PERS retirement benefits.*

***Example 8:** A member of a municipal fire department who is enrolled in the PFRS runs for an elected position in the same municipality. Upon being elected, the individual resigns from his position with the fire department and immediately files for PFRS retirement benefits. However, since this individual is continuing in another (elected) position with the same employer, he does not have a bona fide severance of employment from the municipality. He will not qualify for the receipt of retirement benefits from the PFRS until all service with the municipality ends.*

Under N.J.S.A. 43:3C-3, a qualified retiree of a New Jersey State-administered retirement system

who is thereafter elected to public office may either continue to receive a retirement benefit from the former employment and would not be eligible for enrollment in the new retirement system, or may suspend the retirement benefit (and any related health benefits coverage) from the former employment and enroll in the DCRP while serving in the elected office. Upon termination of the elected office, the retirement benefit from the former employment would be reinstated.

SELF EMPLOYMENT ISSUES

The NJDPB is frequently approached by retirees who seek recognition as independent contractors rather than employees. If there was any arrangement made prior to retirement to return to employment — whether as a contract employee, leased employee, or an independent contractor — the employer/employee relationship is not completely severed and the retirement will be deemed invalid.

Because penalties levied by the IRS can be severe, both the retiree and the employer should give careful consideration before being classified as an independent contractor. In the event that you are incorrectly classified as an independent contractor, the employer will be assessed delinquent enrollment charges for failing to enroll you in the retirement system in a timely fashion. You will also be required to refund all retirement benefits received after the date enrollment should have occurred and pay any retroactive pension contributions. For more information, see the *Independent Contractors, Professional Services Contracts, and Pension Enrollment* Fact Sheet.

¹¹ Either more than 30 days after the date of retirement, or more than 30 days after the retirement has been approved by the Board of Trustees, whichever is the later date of the two.

¹² Those who were granted a retirement allowance prior to the repeal of N.J.S.A. 43:15A-47.2 and N.J.S.A. 43:16A-5.1 (June 28, 2011) and who are currently in the elected office may continue to receive their pension benefit and salary for that elected office.

¹³ After the passage of P.L. 2007, c. 92, newly elected officials are no longer eligible to enroll in the PERS. Those enrolled in the PERS prior to July 2007 are permitted to continue in the PERS for the elected position if they are continuously re-elected to that same office.

OTHER CONSIDERATIONS

The following are additional issues that retirees should consider prior to accepting employment:

Health Benefits — A return to public employment in New Jersey may affect your eligibility to continue coverage under the State Health Benefits Program (SHBP) or School Employees' Health Benefits Program (SEHBP). Check with your prospective employer regarding your health coverage.

Social Security Benefits — There is an earnings test for people receiving Social Security benefits who are under Social Security's full-benefit retirement age. Check with the Social Security Administration at 1-800-772-1213 for information on earnings limits before accepting employment.

Taxes — For specific questions regarding the tax implications of returning to employment after retirement, employees and retirees should consult with a professional tax advisor or contact the IRS at 1-800-TAX-1040.

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