TEACHER RETIREMENT SYSTEM · OF TEXAS ·

PARTIAL LUMP-SUM OPTION

TEACHER
RETIREMENT
SYSTEM OF
TEXAS

PLSO

DROP

See Reverse Side

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Partial Lump-Sum Option

Teacher Retirement System of Texas

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Explanation of PLSO

In 1999, the 76th Texas Legislature approved the establishment of a new partial lump-sum option program for eligible TRS members. Through this new program, qualified members may select a partial lump-sum distribution in addition to a standard or optional retirement annuity--both of which are actuarially reduced--when they retire.

Eligibility Criteria

TRS active members are eligible to participate in the Partial Lump-Sum Option Program (PLSO) if they meet the following conditions. They must:

- be eligible for unreduced service retirement benefits (not early age retirement benefits) after September 1, 1999;
- not be participating in the Deferred Retirement Option Plan (DROP); *and*
- not be retiring with disability benefits.

PLSO Distribution Options

At retirement, a member may select a partial lump-sum distribution equal to 12, 24, or 36 months of a standard service retirement annuity. When this option is selected, the member's annuity will be actuarially reduced to reflect the value of the PLSO distribution. (The combination of both the PLSO and the reduced annuity are the equivalent of the unreduced standard annuity.)

A lump-sum amount equal to 12 months of a standard annuity may be taken at the same time as the member's first monthly annuity payment. A lump-sum amount equal to 24 months may be taken in either one or two annual payments. A lump-sum amount equal to 36 months may be taken in one, two, or three annual payments. Those selecting two or three annual lump-sum payments will have their second and third payments made on the anniversary due date of their initial lump-sum payment. No interest will be paid on any lump-sum amounts. Persons who initially select two or three annual lump-sum payments may accelerate the payments and receive all remaining payments due at any time. To accelerate the payment, the retiree must elect to do so on a form prescribed by TRS. Retirees are also permitted to roll over the eligible portion of any lump-sum payments to a qualified retirement plan to the extent authorized by law.

PLSO Beneficiary Designations

A retiree may designate a beneficiary for the sole purpose of receiving unpaid PLSO payments at the time of the retiree's death. For this to occur, the retiree must make this designation on form TRS 12L, "Designation of Beneficiary for Partial Lump-Sum Payment(s)," prescribed by and filed with TRS. The designation on form TRS 12L will only determine the beneficiary of a PLSO and will not affect the distribution of other death benefits.

Should a retiree die prior to receiving all PLSO payments that are due, TRS will pay any remaining PLSO payments in a single lump-sum payment. If a PLSO beneficiary has not been designated on form TRS 12L, or if the beneficiary(ies) designated on form TRS 12L predeceases the retiree, this payment will be made in accordance with the most current beneficiary designation on file with TRS for the retiree's retirement annuity and as provided by law. If the beneficiary is the retiree's spouse, the payment may be rolled over to an IRA.

Calculating PLSO Reductions to a Member's Standard Annuity

Eligible members who select a partial lump-sum option will receive an actuarially reduced annuity as a result of their selection. Percentages shown on page 9 will be applied to reduce a member's standard annuity once a decision is made to participate in PLSO. The member's age in whole years (shown in column one) and the percentage of an annuity factor (shown in columns two, three and four) will be used to determine the reduction in the standard annuity to be paid to a member who elects to participate in PLSO.

Illustration of a PLSO Distribution

A member retires at age 55 and has 25 years of service credit as of September 1, 1999. Her highest three years' salaries were $28,000, $30,000, and $32,000. Rather than receive her full standard annuity, she is considering whether or not to apply for a partial lump-sum option (PLSO) distribution covering a 24-month period. Should she make this decision, she understands that her standard annuity will be actuarially reduced accordingly. To determine what is best for her, the member will need to identify (1) how much she will receive in two PLSO distributions over 24 months, (2) how much her monthly standard annuity will be reduced as a result of her decision, and (3) whether she would need a lump-sum distribution up front.

Before calculating the estimated PLSO benefit and resulting reduction to her standard annuity, the member needs to confirm that she is eligible to participate in PLSO. To participate, she must:

- be eligible for unreduced service retirement benefits (not early age retirement) after September 1, 1999;

- not be participating in the Deferred Retirement Option Plan (DROP); *and*
- not be retiring with disability benefits.

Next, the member must follow the steps prescribed in this brochure's PLSO Work Sheet to estimate what her PLSO benefit will be.

Step One

List the member's three highest salaries.
$28,000 + $30,000 + $32,000 =
Combined total of $90,000

Step Two

Calculate the member's highest average salary by dividing the figure by three.
$90,000 ÷ 3 = $30,000

Step Three

Multiply the member's total years of service credit by 2.2 percent (current multiplier established by law).
25 years x 2.2% = .55 (total percent)

Step Four

Multiply the total percent by the member's highest average salary.

.55 x $30,000 = $16,500

(This is the member's estimated annual standard annuity.)

Step Five

Divide by 12 to convert the member's estimated annual standard annuity to a monthly amount.

$16,500 ÷ 12 = $1,375

This is the amount of the member's standard annuity for purposes of calculating PLSO distributions. (This standard annuity is actuarially reduced whenever a member elects to receive a PLSO distribution. To determine how much annuity payments will be reduced, please refer to the table on page 9.)

Step Six

Multiply the member's estimated monthly standard annuity times the number of months in which the member wants the PLSO payments to cover.

The result is the total amount to be paid in PLSO payments.

$1,375 x 24 (months) = $33,000

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Step Seven

Refer to the PLSO Distribution Table, page 9, to determine how much the member will also receive in monthly standard annuity payments (actuarially reduced due to the receipt of PLSO payments).

In summary, this hypothetical case illustrates that the member:

- may participate because she qualifies under present criteria;
- will receive a cash payment in the amount of $33,000 at retirement (alternate distribution options are available as noted); and
- will receive an actuarially reduced standard monthly annuity for life in the amount of $1,127.91.

Work Sheet for Estimating PLSO Benefits

You may **estimate** your own PLSO benefits and resulting reduction to your standard monthly annuity by using the following work sheet:

1. List your three highest annual salaries and then add them together.

   Year 1 - $ __________

   Year 2 - $ __________

   Year 3 - $ __________

   TOTAL - $ __________

2. Divide this total by 3.

   ________ ÷ 3 = $__________
   (your highest average salary)

3. Multiply your total years of service credit by 2.2 percent.

   ________ x 2.2% = __________
   (total percent)

4. Multiply your total percent by your highest average salary. (This is your estimated annual standard annuity.)

   ________ x $ __________ = $__________

5. Divide by 12 to convert your estimated annual standard annuity to a monthly amount.

   ________ ÷ 12 = $__________

6. Multiply your estimated (unreduced) monthly standard annuity by the number of months (12, 24, or 36) that you want your PLSO payments to cover. The result is the total amount to be paid in PLSO payments.

$______ x _______ = $__________

7. Refer to the Reduced Standard Annuity Table to determine how much you will also receive in monthly standard annuity payments (actuarially reduced due to the receipt of PLSO payments). To determine the amount of your *reduced* monthly standard annuity, multiply your *unreduced* monthly standard annuity by the appropriate reduction factor shown on page 9.

$_______ x _____% = $__________

Reduced Standard Annuity Table for Those Participating in PLSO

Percentages shown in the following table will be applied to reduce a member's standard annuity when he or she elects a partial lump-sum distribution. (Percentages for those other than age 50-74 may be found on the TRS Web site.) For example, a member who retires at age 60 with a $2,000/month annuity and selects a partial lump-sum distribution of 12 months would receive $24,000 ($2,000 x 12) plus $1,809.20 per month ($2,000 x 90.46%). If a member then selects an optional retirement annuity, the option factor will be applied to the reduced standard annuity.

Reduced Standard Annuity Table

	Percentage of Standard Annuity		
Age	12 Months	24 Months	36 Months
50	91.40	82.79	74.19
51	91.33	82.66	73.99
52	91.26	82.52	73.78
53	91.18	82.37	73.55
54	91.10	82.20	73.31
55	91.01	82.03	73.04
56	90.92	81.84	72.75
57	90.81	81.63	72.44
58	90.70	81.41	72.11
59	90.58	81.17	71.75
60	90.46	80.91	71.37
61	90.32	80.64	70.95
62	90.17	80.34	70.51
63	90.01	80.03	70.04
64	89.85	79.69	69.54
65	89.67	79.34	69.01
66	89.48	78.96	68.44
67	89.28	78.56	67.84
68	89.06	78.13	67.19
69	88.84	77.67	66.51
70	88.59	77.18	65.77
71	88.32	76.65	64.97
72	88.03	76.07	64.10
73	87.72	75.43	63.15
74	87.37	74.74	62.12

Percentages for ages not shown above may be found on the TRS Web site (www.trs.state.tx.us).

Frequently Asked Questions

1. **How can members determine if participation in DROP, PLSO, or neither of these options would best meet their needs?** DROP and PLSO have different eligibility requirements and characteristics, so members should seek assistance from a financial adviser as needed. It is important to note that participation in either DROP or selection of a PLSO distribution results in a reduction of a retiree's monthly annuity. Members should consider the uses of any lump-sum payments that they will receive. Generally, a use that enhances retirement income or savings may merit consideration of these programs. On the other hand, uses that involve expenditures in depreciable assets or that are for leisure should be given careful consideration as they may compromise long-term retirement income.

2. **Under what conditions may a member revoke DROP participation in order to apply for a PLSO distribution?** Members who enrolled in DROP on or before August 31, 1999, have a one-year window, from September 1, 1999, through August 31, 2000, to revoke their DROP participation. Should they do so, TRS is directed by law to reestablish the member account as if the member had never participated in DROP. If a member revokes DROP participation and then continues TRS-covered employment, he may apply for a PLSO distribution at retirement as long as he is eligible for unreduced retirement benefits at that time.

3. **If a current DROP participant revokes his DROP participation in order to apply for a PLSO distribution, will he be entitled to a refund of his DROP contributions to date?** No. DROP contributions are not deposited into their member contribu-

tion account; rather, they are deposited into the retirement reserve account that is used to pay all retirement annuities and death or survivor benefits, including post-retirement benefit increases and other annuity adjustments.

4. **Will my standard annuity be reduced if I participate in PLSO?** Yes. While your actual lump-sum distribution(s) will be based on your unreduced standard monthly annuity, your monthly annuity payments will be actuarially reduced due to the election of PLSO. A further reduction may be made if an optional retirement plan is selected.

5. **How will PLSO distributions be taxed?** Your PLSO distributions are subject to federal income tax withholding. Since these payments have been identified as eligible rollover distributions, TRS must withhold 20 percent for income tax unless the eligible portion is rolled over into an eligible plan. To defer paying taxes on these payments, you may roll over all or a portion of the entire "eligible rollover distribution" amount to another qualified plan or IRA. For additional information on this topic, please contact your tax consultant or the Internal Revenue Service at 1-800-829-1040.

6. **I'd like to obtain the largest possible PLSO distribution available to me. Since such distributions enable me to receive advance payment of my monthly annuity, how many months worth of payments could I receive?** Members may select a partial lump-sum distribution not to exceed an amount equal to 36 months of a standard service retirement annuity. When you apply for a distribution, your annuity will be actuarially reduced to reflect that distribution and will be computed so that no actuarial loss results to TRS. In addition

to 36 months, you have two other options for receiving payments covering 12 months and 24 months of your standard annuity.

7. **If I select a two- or three-year PLSO, would it be better for me to take a payout or immediately roll proceeds into another tax-sheltered investment?** TRS will not pay interest on PLSO balances during distribution. For members who have the financial skills to manage their account (or a source of trustworthy advice), it is likely that they can as a minimum earn interest in an insured account by rolling the balance over to an IRA. TRS does not make investment recommendations, so members should consult with their own tax and financial adviser on investment options.

8. **How will participation in DROP or election of PLSO impact future annuity increases for retirees should they be provided?** Both programs effectively limit a retiree's initial annuity as compared with the annuity that would be received if they had not selected one of these options. Post-retirement increases are based on the amount of a retiree's annuity. Consequently, any future increases that may be approved would be smaller than they otherwise would be since they would be calculated on a smaller annuity. Given the longer life span of retirees today, this factor should be considered when deciding whether to participate in either DROP or PLSO.

For a complete statement of the laws and administrative rules that pertain to PLSO, please consult the TRS Laws and Rules *(Laws, Chapter 824, and Rules, Chapter 29).*

Notes