

# **PERS, Retirement, and You**

Presented by Frank Goulard, 2022

Purpose: Provide information and educate so *you* may better plan *your* future years.

- 1) **Employee Categories:** *Tier 1*-- hired before 1/1/1996  
*Tier 2*-- hired from 1/1/1996 thru 8/28/2003  
*OPSRP*--hired since 8/29/2003
  - Your 2020 PERS statement: mailed to you in mid-May 2021.
  - For all employee categories, the 6% “pickup” of your salary goes to your IAP. IAPs started 1/1/2004. Separately, Tier 1 & 2’s existing regular and variable account balances continue to change with each year’s market returns:
    - Tier 1: Regular 6.9%/yr guaranteed, Variable averaged 9%/yr last 17 years.
    - Tier 2: Regular 9%/yr last 17 years, Variable averaged 9%/yr last 17 years.
  - Can one-time transfer all variable to regular, if within 5yrs of eligibility to retire.
  - IAP: Average of 9%/yr last 17 years (since 1/1/2004).

## **RESOURCES (use, do, and learn from these!):**

- PERS Oregon [www.oregon.gov/PERS](http://www.oregon.gov/PERS), use benefit estimate calculator
- Can request from PERS 2 free Written Benefit Estimates per calendar year, if eligible to retire (55 or 30yrs) and if hypothetical retirement date is within 24 mos.
- Social Security [www.ssa.gov](http://www.ssa.gov), including benefit estimate calculator
- Also: [bankrate.com](http://bankrate.com) [aarp.org](http://aarp.org) [retirementliving.com](http://retirementliving.com) [clarkhoward.com](http://clarkhoward.com) [fincalc.com](http://fincalc.com) [irahelp.com](http://irahelp.com) [persinfo.blogspot.com](http://persinfo.blogspot.com)
- Note:** 1) 2% annual COLA on retiree monthly benefit for pre-2013 years of service, 1.25% on first \$5K/mo for 2013+ years. 2) pre-1995 service: out of state resident reduction. 3) New PERS Actuarial Tables on Jan 1 of each even numbered year, tables use a 6.9% assumed rate (was 8% from 1989-2014). 4) 2019 Oregon Legislature: SB 1049 (4 main provisions) into law.

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## **2022 Federal Income Tax Rates**

Standard Deduction \$12,950(single), \$25,900(married jt); Dependent Exemption gone.  
Last (7<sup>th</sup>) tax bracket below for taxable income above \$539,900(S)/\$647,850(JT), is 37%.

**If filing status is Single**

Taxable Income		
Over ---	But not over ---	Marginal Rate
\$0	\$10,275	10%
\$10,275	\$41,775	12%
\$41,775	\$89,075	22%
\$89,075	\$170,050	24%
\$170,050	\$215,950	32%
\$215,950	\$539,900	35%

**If filing status is Married filing jointly**

Taxable Income		
Over ---	But not over ---	Marginal Rate
\$0	\$20,550	10%
\$20,550	\$83,550	12%
\$83,550	\$178,150	22%
\$178,150	\$340,100	24%
\$340,100	\$431,900	32%
\$431,900	\$647,850	35%

*“Order and simplification are the first steps toward the mastery of a subject.”*

*-Thomas Mann*

2) **Retirement Benefit and its calculation:**

**A plus B below is your benefit from working for a PERS-covered employer;**

**C below is your USA Social Security benefit.**

**A. Tier 1, Tier 2, and OPSRP employees (main, defined-benefit part):**

- Formula Method Tier 1&2: Yrs of service \* Final Average Salary (“FAS”) \*.0167  
Formula method for OPSRP: Yrs of service \* FAS \* .015

Unreduced benefits: Tier 1- age 58 or 30yrs of service, Tier 2- 60 or 30 yrs of service, OPSRP- 65, or 58 with 30 yrs of service. Early retirement reduced benefits: 8%/yr reduction for 1<sup>st</sup> 5 yrs; OPSRP, addnl 5%/yr next 5 years.

- Money Match Method, Tier 1&2: Actuarial factor (“AEF”) \* Account balance \* 2. (if hired before 1981, formula plus annuity method

Additional minor adjustments: pre1995 Tier 1 Oregon state income tax remedy of 1-3%, waiting time purchase, T1&2 sick and T1 vacation leaves in formula method, variable account employer match in money match method. PERS calculates the above for you.

Ready to retire? 1) attend a one-year workshop. 2) request a “written benefit estimate”. 3) letter to your supervisor and HR of your retirement decision, and, make an online 1-on-1 PERS RAAS appointment to take place in final 90 days. Then turn in your PERS and IAP “service retirement application” at 1-on-1, including a payout choice (below).

>>Payout choices for Tier 1 & 2 of: all annuity, lumpsum with annuity, or total (double) lumpsum; then decide on annuity options 1, 2, 2A, 3, 3A...see page 4 of this handout. Lumpsum can be *one qualified plan direct rollover* or up to 5 annual installments of qualified plan rollovers. Qualified plans are traditional IRA, 403b/TSA, 457/OSGP.  
>>Payout choices for OPSRP: all annuity, with full and half survivorship options.

**B. IAP for Tier 1, 2, and OPSRP employees (defined-contribution part):**

- Distributed upon retirement as a taxable lumpsum or as an IRA rollover, OR, installments over a time period. Assume a \$36K salary in 2004, 3%ann cola, 3%ann step first 10yrs, and 8% IAP return; then IAP acct balance, with SB1049’s redirect impact, ~\$40K(10yrs), 135K(20yrs), 345K(30yrs).

**C. Social Security ([www.ssa.gov](http://www.ssa.gov))**

- Early soc sec as early as 62 vs. full retirement age “FRA” (66 if born 1943-1954, 67 if born 1960+) vs. delaying to age 70: benefit reduction of 5 to 6.7%/yr for early retirement, benefit increase of 8%/yr to delay. Benefit based on highest 35 earnings years, inflation indexed.
- If 2022 wages >\$19,560/yr (\$1,630/mo in first yr) between 62 and FRA, then \$1 withheld for every \$2 wages above limit. In year of FRA, \$51,960 (\$4,330/mo) is limit; no withheld amount starting month of FRA.

p.4 D. Medicare ([www.medicare.gov](http://www.medicare.gov))

- Traditional Medicare begins at age 65. Part A hospital insurance \$0 premium. Part B doctor, outpatient, etc \$170-\$544/mo premium, \$233 ann ded, 20% copay. Part D is the prescription plan, \$10-\$200/mo premium.
- Supplemental / Medigap insurance to ABD, eg PERS Retiree \$158-\$201/mo.
- Or, select a Medicare Advantage plan (Part C) to address Parts A, B, and D.

<http://www.aarp.org/health/medicare-insurance/info-04-2011/medicare-choices.html>

### **Formula Method and Money Match Method: Case Study**

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Case study: age 64yrs 1 mo retirement age, with a \$100,000 Tier 1 or 2 account balance, \$42,000 annual salary (\$3,500/mo), 30 years of service, 1000 unused sick leave hours.

\*\*PERS calculates both methods and selects the higher amount for you. In the example as shown below, the formula method is higher than the money match method.

#### **Formula Method:**

Annuity: Tier1/2:  $30 * \$4,007 * .0167 = \mathbf{\$2,008/mo}$  annuity (6% pickup & sick leave)

Tier1/2:  $30 * \$3,710 * .0167 = \$1,858/mo$  annuity (6% pickup & if 0 sick lv)

OPSRP:  $30 * \$3,500 * .015 = \$1,575/mo$  annuity

These are Option 1 (no beneficiary) figures.

Options 2 & 2A (full survivorship), and Options 3 & 3A (half survivorship) are generally 10% less if beneficiary is the same age.

Lump Sum with Annuity: \$100,000 employee balance as a lumpsum check, and, ~\$900/mo annuity (monthly PERS retirement check). Tier 1 or 2.

Total Lump Sum: \$200,000 employee balance & employer match as a lumpsum check, and no annuity (no monthly PERS retirement check). Tier 1 or 2.

#### **Money Match (for Tier 1 or Tier 2 only):**

Annuity: \$100,000 account balance (employee balance)

+\$100,000 money match (employer match)

\$200,000 Then,  $200 * 7.50 = \$1,500$  (*7.50 is the Actuarial Equivalency Factor from the PERS 2022 AEF tables, Option 1*).

Ie, **\$1,500 annuity (monthly PERS retirement check)**.

This is the Option 1 (no beneficiary) figure.

Options 2 & 2A (full survivorship), and Options 3 & 3A (half survivorship) are generally 10% less if beneficiary is the same age.

Lump Sum with Annuity: \$100,000 employee balance as a lumpsum check, and,  $100 * 7.50$  Actuarial Factor from monthly table = \$750,

Ie, \$750/mo annuity.

Total Lump Sum: \$200,000 employee balance & employer match as a lumpsum check, and no monthly PERS retirement check (no annuity).

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- 1) T1/2: If deceased while employed, then beneficiary on record receives total lumpsum.
  - 2) T1: Unused vacation leave only credited to Tier 1 retirement check calculations.
  - 3) T1/2: Can change retirement option within 60 days of receiving first check.
  - 4) 2020-24: Retired and normal PERS retirement age, can work for PERS employer unlimited hrs. If retired before that age, then must first have a 6mo break to work unlimited hrs (SB1049); otherwise 1039hr (Tiers 1&2) & 599hr (OPSRP) limits apply. If Tiers 1&2 and full SocSec retirement age, can work unlimited hrs for PERS employer.
  - 5) Retirement checks and qualified plan (Trad IRA, 403bTSA, 457) withdrawals subject to Federal and State Income Taxes in state of residence, but no 7.65% FICA tax.

### **3) When and how should I retire?**

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*Do you have enough? Have you had enough? Will there be enough to be involved?*

-Considerations

- Health Insurance & Expenses (premium, out of pocket cost, Rx)
  - Housing Expense
  - Children or others who are dependent on you
  - Other major expenses both foreseen and unforeseen: next home, home repairs, transport (car, boat, plane, etc), travel/vacations, hobbies.
- Develop a retirement budget of 8 expense categories, for future years & dollars:  
 \*Health \*Housing \*Transportation \*Income Taxes (fed, state)  
 \*Food \*Entertainment \*Apparel & Services \*Reading & Education
- Retirement Income: “the three-legged stool” of: PERS pension, Social Security (www.ssa.gov), and Other Investments (qualified accounts such as IRA, 401k, 403b “TSA”, 457 “Oregon Savings Growth Plan”, and nonqualified accounts).
- Create 2 spreadsheets: assets, and, income/expenses; from today to future years. Itemize your last two calendar years of expenses for future budgeting purposes.  
 -Include a proper annual withdrawal percentage in retirement years, up to 4%, but be vigilant in early (4) yrs to preserve principal! At age 75, we spend 75% of what we spend at age 65; at age 85 we spend 50% of what we spend at age 65.

**TO DO Now:** Personalize this to *your* situation & goals. Be active in all realms. Create 2 spreadsheets: assets, income/expenses, today to future with notes. Current monthly budget with categories, project future and retirement years’ income vs expenses to keep a focused financial map and goal.

- TO DO When Ready to Retire:** 1) Get a written benefit estimate from PERS  
 2) Write a letter to your supervisor and HR with your retirement date.  
 3) Make a 1on1 RAAS appointment with PERS within 90 days of retirement date to submit your completed PERS & IAP retirement application packet.

<u>ASSETS</u> (working years)	End of 2021	End of 2022	<u>ASSETS</u> (retired)	20--	20--
PERS Tier1/2: Acct x 2					
IAP			IAP		
403b,457,IRAs			403b,457,IRAs		

Nonqualified accts/savings			Nonqualified accts/savings		
Home equity			Home equity		
<b><u>Assets TOTAL</u></b>			<b><u>Assets TOTAL</u></b>	<b>—</b>	<b>—</b>
			PERS monthly annuity	<b>—</b>	<b>—</b>
Work			Social security, work		
Other income			Withdraw x% assets		
<b><u>Income TOTAL/mo</u></b>			<b><u>Income TOTAL/mo</u></b>	<b>—</b>	<b>—</b>
Expense categories			8 expense categories	<b>—</b>	<b>—</b>
<b><u>Expense TOTAL/mo</u></b>			<b><u>ExpenseTOTAL/mo</u></b>	<b>—</b>	<b>—</b>

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	<b>Tier One</b>	<b>Tier Two</b>	<b>OPSRP</b>	
Normal retirement age	Age 58 (or any age w/ 30 yrs of service)	Age 60 (or any age w/ 30 yrs of service)	Age 65 (or age 58 w/ 30 yrs of service)	Members retire from IAP when they retire from Tier One, Tier Two, and OPSRP

Early retirement (~ 7% to 8%/yr benefit reduction)	Age 55	Age 55	Age 55	Members retire from IAP when they retire from Tier 1,2, and OPSRP
Earnings	Guaranteed assumed rate on annual basis (6.9%)	No guarantee; market returns	Not applicable; no member account	No guarantee; market returns
Retirement calculation methods	MoneyMatch, Full Formula, or F Plus Ann	Money Match or Full Formula	Full Formula	N/A
Full Formula benefit factor <sup>2</sup>	1.67% General	1.67% General	1.5% General	N/A
Formula+Annuity	1% General	N/A	N/A	N/A
	<b>Tier One</b>	<b>Tier Two</b>	<b>OPSRP</b>	<b>IAP</b>
Lump-sum vacation payout: Included in salary for the 6% pickup	Yes	Yes	No	
Included in FAS	Yes	No	No	N/A
Unused sick leave and 6% pickup incl in FAS	Yes	Yes	No	N/A
Vesting	Contributions in each of five yrs or age 50	Contributions in each of five yrs or age 50	5 yrs w/ at least 600 hrs/yr or active member at normal ret age	Immediate