



PARTIAL LUMP SUM OPTION

TEACHER
RETIREMENT
SYSTEM OF
TEXAS

OSTEP

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Partial Lump Sum Option (PLSO)

Teacher Retirement System of Texas

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Explanation of PLSO

The retirement plan administered by the Teacher Retirement System of Texas (TRS) includes a Partial Lump Sum Option (PLSO) feature. At retirement, eligible members may select a partial lump sum distribution in addition to an actuarially reduced monthly retirement annuity.

Eligibility Criteria

Effective September 1, 2005, eligibility to elect PLSO depends on whether a member is “grandfathered” to use the pre-September 1, 2005 requirements, or is not grandfathered and thus must use the new eligibility requirements that went into effect on that date. The PLSO election is made at the time of retirement, and eligibility will be evaluated at that time.

If a member is not “grandfathered” under the criteria below, then the member may select PLSO at retirement if the member

- is eligible for a service retirement annuity,
- meets the “Rule of 90” (combined age plus years of service credit equal at least 90),
- is not participating in the Deferred Retirement Option Plan (DROP),
- is not retiring with disability benefits, and
- is not retiring under the proportionate retirement law.

If the member is “grandfathered” under the criteria below, then the member may select PLSO at retirement if the member is:

- eligible for normal-age service retirement benefits,
- not participating in DROP,
- not retiring with disability benefits, and
- not retiring under the proportionate retirement law.

Criteria to be “Grandfathered”

A retiree must have met one of the following criteria as a member on or before August 31, 2005, in order to be “grandfathered:”

- was at least 50 years old, or
- had age and years of service credit that equaled at least 70 (“Rule of 70”), or
- **had at least 25 years of service credit.**

PLSO Distribution Amounts and Payment Methods

At retirement, an eligible member may select a partial lump sum distribution amount equal to 12, 24, or 36 months of a standard service retirement annuity. When PLSO is selected, the member’s monthly annuity will be actuarially reduced to reflect the value of the PLSO amount selected.

Special Note: Changes to the retirement plan that are scheduled to take effect after the date of publication of this brochure may make it

*possible for a non-grandfathered member to be eligible for PLSO while eligible for early age service retirement but not normal age service retirement. In the event a non-grandfathered member is eligible for PLSO but is not eligible for normal age service retirement, the standard service retirement annuity, **as reduced for early age**, will be used in PLSO calculations. The work sheets and illustrations for non-grandfathered members below assume the member is eligible for normal age retirement.*

Disbursement of the PLSO selection will be made according to one of the following methods, depending on which PLSO distribution amount the member selects:

- If the member selects a lump sum amount equal to 12 months of a standard annuity, the amount will be paid at the same time as the member's first monthly annuity payment; or
- if the member selects a lump sum amount equal to 24 months, the amount may be taken in either one or two annual payments; or
- if the member selects a lump sum amount equal to 36 months, the amount may be taken in one, two or three annual payments.

Members who select 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. Interest will *not* be paid on any lump sum amounts deferred for payment in the second or third year. Retirees who select two or three annual lump sum payments and who later wish to accelerate the remaining payments may do so by notifying TRS and making an election on a form prescribed by TRS.

Retirees are permitted to roll over the eligible portion of any lump sum payments to another eligible retirement plan. For more information, members should refer to the income tax information form, "Special Tax Notice Regarding TRS Payments," which will be included with their retirement forms. TRS encourages members to consult with a professional tax adviser if they have any questions.

The selection of a partial lump sum option reduces a retiree's annuity. The reduced annuity plus the partial lump sum are the actuarial equivalent of the unreduced standard annuity benefit.

Post-retirement benefit increases, when authorized by the legislature, are based on the amount of the retiree's reduced annuity. Consequently, any future increases that may be approved by the legislature would be calculated on the reduced annuity and result in a lower net monthly increase.

Members may estimate their PLSO amounts through the retirement estimate calculator on the TRS Web site (www.trs.state.tx.us). This calculator will also show a member how the monthly annuity will be reduced, depending on which PLSO amount is selected.

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)." The completed form must be received by TRS prior to the member's death to be effective. The designation on form TRS 12L will determine the beneficiary only for a remaining PLSO balance but will not control the distribution of other TRS 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.

A beneficiary may roll over a PLSO distribution to an IRA or other eligible retirement plan to the extent permitted under federal tax law.

Calculating PLSO Reductions to a Member's Standard Annuity

Eligible members who select a PLSO will receive an actuarially reduced annuity. The actuarial table shown on page 15 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 standard annuity factor

(shown in columns two, three and four) will determine the reduction in the standard annuity to be paid to a member who selects PLSO.

Illustration of PLSO for a “Grandfathered” Member

A member applies to retire at age 60 and has 25 years of service. The member has verified that she meets the PLSO eligibility criteria for a grandfathered member. Her three highest annual salaries are \$32,000, \$34,000, and \$36,000. Rather than receive her full standard annuity, she is considering whether to select a PLSO distribution equal to 24 months of her standard annuity. If she elects a PLSO, she understands that her monthly standard annuity will be actuarially reduced. To determine what is best, she will need to know (1) how much she will receive as her PLSO distribution amount, and (2) how much her monthly standard annuity will be reduced as a result of her decision. Then, she will carefully consider whether the reduced amount that she would receive as a monthly annuity will be sufficient to cover her post retirement needs.

The member may use the TRS retirement estimate calculator on the TRS Web site or may follow the steps in the example below and the PLSO Work Sheet to estimate what her PLSO benefit and her reduced monthly annuity will be.

Steps One through Five - Preliminary information

Step One

List the member’s three highest salaries.

$\$32,000 + \$34,000 + \$36,000 =$
Combined total of \$102,000

Step Two

Calculate the member's highest average salary by dividing the figure by three.

$$\$102,000 \div \text{by } 3 = \$34,000$$

Step Three

Multiply the member's total years of service credit by 2.3 percent (current multiplier established by law).

$$25 \text{ years} \times .023 = .575 \text{ (total percent)}$$

Step Four

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

$$.575 \times \$34,000 = \$19,550$$

(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.

$$\$19,550 \div \text{by } 12 = \$1,629.17$$

This is the amount of the member's standard annuity for purposes of calculating PLSO distributions. (This standard annuity amount will be actuarially reduced when a member elects to receive a PLSO distribution.) To determine the reduced monthly annuity payment, see Step 7.

Step Six – The PLSO amount

Multiply the member's estimated monthly standard annuity from Step 5 times the number of months (12, 24, or 36) the member wants the PLSO payments to equal. The result is the total amount to be paid as PLSO payments. Since this member is

considering a PLSO payment equivalent to 24 months of her standard annuity, her PLSO total is: $\$1,629.17 \times 24 \text{ (months)} = \$39,100.08$

Step Seven – The Reduced Monthly Standard Annuity

Refer to the Reduced Standard Annuity Table, page 15, to determine how much the member will also receive in monthly standard annuity payments, actuarially reduced due to the receipt of PLSO payments. According to the table, this member will receive an actuarially reduced standard monthly annuity for life in the amount of $\$1,318.16$ ($\$1,629.17 \times 80.91\%$). The reduction factor of 80.91% is based on her age at retirement (60) and her selection of a PLSO equivalent to 24 months of a standard annuity.

Work Sheet for Estimating PLSO Benefits for a “Grandfathered” Member

If you are “grandfathered,” you may **estimate** your own PLSO benefits and resulting reduction to your standard monthly annuity by using the following work sheet:

Preliminary Information

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.

\$ _____ \div 3 = \$ _____

(your highest average salary)

3. Multiply your total years of service credit by 2.3 percent (.023).

$$\underline{\hspace{2cm}} \times .023 = \underline{\hspace{2cm}}$$

(total percent)

4. Multiply your total percent by your highest average salary. (This is your estimated annual standard annuity before any reduction for PLSO.)

$$\underline{\hspace{2cm}} \times \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

5. Divide by 12 to convert your estimated annual standard annuity to a monthly amount. This is your unreduced monthly standard annuity, before any reduction for PLSO.

$$\$ \underline{\hspace{2cm}} \div 12 = \$ \underline{\hspace{2cm}}$$

The PLSO Amount

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

$$\$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

The Reduced Monthly Standard Annuity

7. Refer to the Reduced Standard Annuity Table to determine how much you will also receive in monthly standard annuity payments, actuarially reduced to reflect the amount of your 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 15.

$$\$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} \% = \$ \underline{\hspace{2cm}}$$

Illustration of PLSO for a “Non-grandfathered” Member

A member applies to retire at age 60 and has 35 years of service. Because of his age and years of service credit, this member is eligible for normal age service retirement benefits. The member has verified that he meets the PLSO eligibility criteria for a member who is not grandfathered. His five highest annual salaries are \$40,000, \$42,000, \$44,000, \$46,000, and \$48,000. Rather than receive his full standard annuity, he is considering whether to select a PLSO distribution equal to 36 months of his standard annuity. If he selects a PLSO, he understands that his standard annuity will be actuarially reduced. To determine what is best, he will need to know (1) how much he will receive in his PLSO distribution, and (2) how much his monthly standard annuity will be reduced as a result of his decision. Then, he will carefully consider whether the reduced amount that he would receive as a monthly annuity will be sufficient to cover his post retirement needs.

The member may use the TRS retirement estimate calculator on the TRS Web site or may follow the steps in the example below and the PLSO Work Sheet on page 12 to estimate what his PLSO benefit and his reduced monthly annuity will be.

Steps One through Five – Preliminary Information

Step One

List the member’s five highest salaries.

$\$40,000 + \$42,000 + \$44,000 + \$46,000 + \$48,000 = \text{Combined total of } \$220,000$

Step Two

Calculate the member's highest average salary by dividing the figure by five.

$$\$220,000 \div \text{by } 5 = \$44,000$$

Step Three

Multiply the member's total years of service credit by 2.3 percent (current multiplier established by law).

$$35 \text{ years} \times .023 = .805 \text{ (total percent)}$$

Step Four

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

$$.805 \times \$44,000 = \$35,420$$

(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.

$$\$35,420 \div \text{by } 12 = \$2,951.67$$

This is the amount of the member's standard annuity for purposes of calculating PLSO distributions. (This standard annuity amount will be actuarially reduced when a member elects to receive a PLSO distribution. To determine the reduced monthly annuity payment, see Step 7.)

Step Six – The PLSO Amount

Multiply the member's estimated monthly standard annuity by the number of months (12, 24, or 36) the member wants the PLSO payments to equal. The result is the total amount to be paid as PLSO payments. Since this member is considering a PLSO

payment equivalent to 36 months of his standard annuity, his PLSO total is: $\$2,951.67 \times 36 \text{ (months)} = \$106,260.12$

Step Seven – The Reduced Monthly Standard Annuity

Refer to the Reduced Standard Annuity Table, page __, to determine how much the member will also receive in monthly standard annuity payments, actuarially reduced due to the receipt of PLSO payments. According to the table, this member will receive an actuarially reduced standard monthly annuity for life in the amount of \$2,106.61 ($\$2,951.67 \times 71.37\%$). The reduction factor of 71.37% is based on his age at retirement (60) and his selection of a PLSO equivalent to 36 months of a standard annuity.

Work Sheet for Estimating PLSO Benefits for a “Non-grandfathered” Member

If you are NOT “grandfathered,” you may **estimate** your own PLSO benefits and resulting reduction to your standard monthly annuity by using the following work sheet:

Preliminary Information

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

Year 1 - \$ _____

Year 2 - \$ _____

Year 3 - \$ _____

Year 4 - \$ _____

Year 5 - \$ _____

TOTAL - \$ _____

2. Divide this total by 5.

\$ _____ \div 5 = \$ _____

(your highest average salary)

3. Multiply your total years of service credit by 2.3 percent (.023).

$$\underline{\hspace{2cm}} \times .023 = \underline{\hspace{2cm}}$$

(total percent)

4. Multiply your total percent by your highest average salary. (This is your estimated annual standard annuity before any reduction for PLSO.)

$$\underline{\hspace{2cm}} \times \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

5. Divide by 12 to convert your estimated annual standard annuity to a monthly annuity. This is your unreduced monthly standard annuity, before any reduction for PLSO.

$$\$ \underline{\hspace{2cm}} \div 12 = \$ \underline{\hspace{2cm}}$$

The PLSO Amount

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

$$\$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

The Reduced Monthly Standard Annuity

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 15.

$$\$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} \% = \$ \underline{\hspace{2cm}}$$

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. For example, a member who is eligible to retire at age 60 with an unreduced standard annuity of \$2,000 per month but who selects a partial lump sum distribution equal to 12 months of his unreduced standard annuity would receive

- \$24,000 as his PLSO distribution (\$2,000 x 12) plus
- \$1,809.20 per month as his reduced standard annuity ($\$2,000 \times 90.46\%$).

If a member then also selects an optional retirement annuity (TRS Option 1, 2, 3, 4, or 5) instead of the standard annuity, the option factor will be applied to further reduce 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 PLSO would best meet their needs?

Members may want to seek assistance from a financial advisor. Members should carefully consider their projected expenses and income over their life expectancy, which could be 30 years or more after retirement. Many money or financial Web sites provide calculators that can show the effect of inflation on household expenses. In a monthly or annual budget, always plan for costs that are not easy for an individual to control, such as rising health care costs, health and property insurance costs, and taxes (including local property taxes). Please note that selection of a PLSO distribution results in a ***permanent*** reduction to a retiree's monthly annuity, so retirees should be sure their reduced annuity would cover their projected expenses. If the reduced annuity that results from taking a PLSO is not sufficient, a member should carefully consider whether taking a PLSO is advisable.

Additionally, members should consider how they would use any lump sum payments. First, they should consider if they have a plan to invest the money to generate more retirement income. Taking PLSO without a savings or investment plan may result in spending the money on non-income producing assets, like a car, or on lifestyle expenses, like costly vacations. Then, as the cost of living rises over the years, a member may have depleted the PLSO lump sum so much that neither the remaining lump sum nor earnings on the remaining lump sum are sufficient to supplement their reduced annuity. Second,

even if they have an investment plan, do they have the knowledge and desire to monitor their investments and make adjustments as needed? Can they weather investment losses, if their choice of investment does not perform well? Do they know what fees will be charged to their investment and how that will affect how their money grows? These are basic questions that individuals should ask themselves when choosing between

- a fixed, higher monthly annuity but no lump sum, or
- a lump sum payment but with a permanently reduced monthly annuity.

Members seeking assistance from a financial advisor in deciding whether to select a PLSO should also be circumspect in their selection of an advisor. Careful consideration should be given to advice from a financial advisor who encourages a member to select a PLSO distribution so that the advisor can invest the money and enhance the retiree's retirement income. Members should consider seeking financial advice from an advisor who will not have a financial stake in the type of retirement plan selected.

2 Will a member's standard annuity be reduced if he or she participates in PLSO?

Yes. Their monthly lifetime annuity payments will be actuarially reduced due to the election of PLSO. An additional reduction will be made if they select an optional retirement plan.

3 How will a member's PLSO distribution(s) be taxed?

PLSO distributions generally are taxed as ordinary pension income in the tax year in

which the distribution is received. A large PLSO distribution in a tax year may move a retiree into a higher federal income tax bracket, with a higher tax rate than to which the retiree may be accustomed.

To defer paying taxes on PLSO distributions, a retiree may roll over all or a portion of the eligible amount to another eligible retirement plan, including a traditional Individual Retirement Account (IRA). At retirement, the member will receive a “Special Tax Notice Regarding TRS Payments” explaining more about the opportunity to roll over his or her lump sum distribution. For additional information on this topic, please contact a tax consultant or the Internal Revenue Service at 1-800-829-1040.

If a member does not elect to roll over his or her entire PLSO distribution, any amount paid directly to the member is subject to federal income tax withholding by TRS. Since PLSO payments are rollover-eligible distributions, federal tax law requires TRS to withhold 20 percent for federal income tax of any PLSO amount that is not rolled over into an eligible plan. This is the amount TRS is required to withhold but the actual tax liability may be greater or lesser than 20 percent.

If a member is less than 59½ years of age, an additional 10 percent penalty may be imposed by the Internal Revenue Service and be due at the end of the tax year. Please see the “Special Tax Notice Regarding TRS Payments” and the March 2006 TRS News, available on the Publications page of the TRS Web site, www.trs.state.tx.us, for more information about when this penalty applies.

4 I'd like to obtain the largest possible PLSO distribution available to me. I understand that PLSO distributions enable me to receive advance payment of some of my monthly annuities. How many months worth of payments may I receive?

Members may select a partial lump sum distribution equal to 12, 24, or 36 months of their standard annuity amount. The amount equivalent to 36 months of a standard service retirement annuity is the largest possible PLSO distribution. When members apply for a distribution, their annuity will be actuarially reduced to reflect that distribution and will be computed so that no actuarial loss results to TRS. Selecting the largest PLSO distribution results in the largest reduction to your monthly annuity.

5 If I select a lump sum amount equal to 24 or 36 months of my standard annuity, would it be better for me to take a payout in two or three annual payments, or immediately rollover the entire lump sum amount into another tax-deferred account, such as an IRA?

If a member chooses to have their PLSO amount distributed over two or three annual payments, TRS does not pay interest on PLSO balances waiting to be distributed. Therefore, the balance of a PLSO amount paid over two or three years will not increase in value while held by TRS. Members who have the financial knowledge and desire to manage their account (or a source of trustworthy advice) may want to consider rolling over the entire PLSO amount to an

IRA investment that could potentially earn interest or increase in value over time. TRS does not make investment recommendations, so members should consult with their own tax and financial advisors on investment options.

6 How will the selection of PLSO impact future annuity increases for retirees, should they be provided?

The selection of PLSO permanently reduces a retiree's annuity as compared with the annuity that would have been received if the retiree had not selected PLSO. Post-retirement increases normally 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 reduced annuity. Given the longer life span of retirees today, this factor should be considered when deciding whether to select PLSO.

7 Is all this information available on TRS's Web site (www.trs.state.tx.us)?

Yes, and the Web site's Retirement Estimate Calculator is interactive so members can evaluate as many options as they wish before deciding whether to participate in PLSO.

For a complete statement of the state laws and TRS administrative rules that pertain to PLSO, please consult the TRS Laws and Rules (Texas Government Code, Chapter 824, and TRS Rules, 34 Texas Administrative Code Chapter 29).



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