TRS FINANCIAL AWARENESS VIDEO SERIES

VIDEO #7: Should I Get a Refund?

Transcript

Meet Raymond. Raymond was a payroll specialist at a community college, but he and his wife recently left their jobs to pursue their dream of owning an apple orchard. Raymond was a TRS member for 6 years, and he isn't sure what he should do now with the money in his TRS account. With business expenses piling up, getting a refund sure sounds enticing. But would keeping his money with TRS be a better choice?

It could be. Raymond has three options:

- One, he could leave his contributions in his TRS account and, as a member, eventually be eligible for a TRS pension;
- Two, he could terminate his TRS membership and roll his contributions into another retirement savings account;
- Or three, he could terminate his TRS membership and receive a refund of his contributions.

Since Raymond has more than five years of TRS service credit, he is eligible to receive a TRS pension when he turns 65, if he chooses to keep his contributions with TRS. A formula involving his years of service, final average salary and a multiplier will be used to determine the amount of his check. While he could run out of other sources of retirement income, his pension check would be paid every month as long as he lives, regardless of how much money he has accumulated in his TRS account.

To calculate approximately how much his TRS pension would be worth in the long run, Raymond can use the calculator on MyTRS to estimate his monthly TRS pension, then multiply the estimate by 12 and by his estimated number of years in retirement. That will give him his estimated lifetime pension income.

Raymond could also choose to roll his contributions into a tax-deferred retirement savings account, such as a 403(b), 401(k), 457(b) or IRA. His rolled-over contributions would not be subject to any federal taxes or penalties at that time, so he would get to transfer all of his money to his retirement savings, including the interest it accumulated at TRS.

Lastly, he could choose to withdraw his TRS contributions, but he would not receive a full refund. A mandatory 20 percent federal income tax withholding would be deducted from his account balance. An additional 10 percent early withdrawal penalty may also apply when he files his tax return if he was not 59 and a half at the time of distribution. Not everyone's tax situation is the same as Raymond's, so be sure to measure the tax implications before you withdraw your contributions.

By taking a refund, Raymond would give up all rights to his TRS pension and any other benefits such as survivor and disability benefits. He could buy back his terminated service credit if he were to return to TRS-covered employment, but that could be expensive, and his retirement eligibility requirements could change.

If you're faced with the decision of whether to get a refund, pick your option carefully and keep your long-term goals in mind.

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