

Understanding Your Benefits Letter: Tiers I/II



As a retiree of the Teachers' Retirement System of the City of New York (TRS), you will receive a Benefits Letter about a week before receiving your first retirement allowance payment.

The Benefits Letter is a comprehensive statement of your retirement allowance benefit under the Qualified Pension Plan (QPP). It details the calculations used to compute your retirement allowance and includes other important information about your payment option, beneficiary designations, investment elections, and taxes.

The Benefits Letter is divided into several sections, which are described in this brochure. If you have a question about your Benefits Letter, please consult this publication before contacting TRS; the explanation may be included here. Please keep your Benefits Letter and this brochure for future reference.

Monthly and Annual Retirement Allowance Amounts

Your QPP retirement allowance, which will be paid to you for life (or until you return to active service), is paid in monthly installments. It consists of a "fixed" portion paid in dollars, and may include a "variable" portion paid in units, the value of which changes each month. Your retirement allowance would include a variable portion if you have funds invested in the variable-return Passport Funds. This part of your Benefits Letter indicates the monthly and annual amounts of the fixed portion of your retirement allowance and the number of variable units, if applicable, that you will be paid monthly and annually. The variable-return Passport Fund unit values for the month of your payability are also shown. The fixed portion of your retirement allowance includes your "regular pension" (see **Calculating Your Retirement Allowance** on page 4) and any funds invested in the Fixed Return Fund. In general, the fixed portion will not change from month to month, and the number of variable units that you

are paid each month will also remain constant throughout your retirement.* However, the dollar equivalent of the variable portion depends on the monthly unit value for the applicable investment program. Because unit values change from month to month, the variable portion of your retirement allowance will also differ each month. (See **Investment Elections** on page 4.)

**Note: If you elect a conversion at any time during your retirement, this would result in a change in the dollar amount and/or variable units paid each month.*

Your Electronic Fund Transfer (EFT) Quarterly Statements or monthly retirement allowance check stubs, as applicable, will indicate the fixed and variable portions of your monthly payments. The monthly dollar amount of your regular pension is indicated next to "PENSION1" on your EFT statement or check stub; the monthly dollar amount of any funds you have invested in the Fixed Return Fund is indicated next to "FIXED ANNTY" on your EFT statement or check stub; and the monthly dollar

amount of any funds you have invested in the variable-return Passport Funds is indicated next to the applicable program name. Your retirement allowance is determined based on a formula that uses the personal information indicated in this part of your Benefits Letter. This includes your date of birth, retirement type, retirement date, and retirement plan election, as well as the items described below.

Payability Date

This is generally the date on which you meet all the criteria to receive payment of your retirement allowance. If you qualify for immediate payment, your payability date would be the same as your effective retirement date. However, if you retire under deferred payability, your payability date would be a subsequent date on which you meet all criteria to receive payment of your retirement allowance.

Payment Option

This shows the code for the payment option that you elected for your retirement allowance. At retirement, you had a choice of receiving your maximum retirement allowance (under the Maximum Payment Option) or receiving a smaller allowance in order to provide a death benefit for your beneficiaries. If you elected Option IV-b, or if you elected Option I (Tier II only), the payment option that you elected for the regular pension and Pension Reserve portions of your retirement allowance is also shown. In addition, if you elected an option that provides for a beneficiary, a "J&S," which indicates a joint and survivor benefit, may also appear.

Total Service Credit

This amount (along with your age) helps determine the retirement plan(s) for which you are eligible. For Tier I members, Total Service Credit equals the sum of your qualifying service and any outside teaching service. For Tier II members, Total Service Credit equals your qualifying service. Any Chapter 126 credit is also included in Total Service Credit. In this section, Total Service Credit is represented in years, months, and days (e.g., 25 years, 6 months).

However, in the **Calculating Your Retirement Allowance** section, the same total is rounded and shown differently (e.g., 25.5 years, which is derived by dividing 6 months by the 12 months of the calendar year).

Qualifying Service

This amount counts toward the requirement for Plan A benefits (Tier I) or Plan C benefits (Tier II) and is the sum of your TRS membership service, transferred service, and credited prior service. For Tier II members, your qualifying service is equal to your Total Service Credit.

Final Average Salary (FAS)

This figure is one of the main components used in computing your retirement allowance and is calculated according to your tier.

Under Tier I, the FAS is one of three figures:

- Your actual gross salary earnable during the 12 months before your retirement (if you have served at least 3 years in the position from which you are retiring); or
- Your annual earnable salary during the last year of the most recent position you held for at least 3 years (if you have served less than 3 years in the position from which you are retiring); or
- Your average annual earnable salary during any consecutive 5 years that you elect.

**Note: If your Tier I membership began after June 17, 1971, compensation earned during any 12-month period exceeding that of the preceding 12 months by 20% was excluded from the calculation.*

Under Tier II, the FAS is generally the average of your 3 highest consecutive annual salaries earned during your periods of total credited service. There are two basic exceptions to this rule: 1) If the salary you earned during any year included in the 3-year period exceeded the average of the previous two years' salaries by more than 20%, the amount in excess of 20% was excluded from the calculation; 2) If your FAS was based on the 3-year period immediately preceding your effective retirement date, any leaves of absence during that period (to a maximum of 12 months) were excluded from the calculation and replaced by the equivalent amount of time immediately preceding the 3-year period.

Early Retirement Incentive (ERI) Credit

This entry, which would appear only if you retired under an ERI program, represents the additional service credit that you received under the ERI. ERI credit is not reflected in your Total Service Credit.

Payment Breakdown

The first page of your Benefits Letter indicates the portions of your retirement allowance that are paid from TRS' Passport Funds. This section of the Benefits Letter breaks down those components further, into pension and annuity portions.

Your "regular pension," which is based on salary, Total Service Credit, and other factors, is paid exclusively from the Fixed Return Fund. The annuity portion is made up of two parts: the Annuity Reserve, based on your Annuity Savings Fund (ASF) balance at retirement; and the Pension Reserve, based on your Increased-Take-Home-Pay (ITHP) balance at retirement. The annuity portion may be paid from any combination of your Passport Funds, depending on how you have allocated your QPP funds. (See **Investment Elections** on page 4.)

As a reminder, the ASF account contained the pension contributions you made to the QPP during your active membership (plus interest/investment return and any supplemental employer contributions). The ITHP account contained the City's additional contributions (at a specified percentage of your salary, plus interest/investment return), which have accumulated for this post-retirement annuity based on your elections during your active membership.

This section of the Benefits Letter shows the annual amounts payable to you from the Fixed Return Fund (in dollars) for your regular pension, Annuity Reserve, and Pension Reserve, as well as the number of units payable from the variable-return Passport Funds for your Annuity Reserve and Pension Reserve. If you elected a "pop-up" continuing payment option (*i.e.*, Options IV-2, IV-3, or IV-4), this part also shows the retirement allowance that would be payable to you if your beneficiary predeceases you.

Payment Option

This section describes the terms of the payment option that you elected for your retirement allowance; if you elected Option IV-b or Option I (Tier II only), the payment option that you elected for the regular pension and Pension Reserve portions of your retirement allowance is also listed. This part of the Benefits Letter also indicates the benefit payable to your beneficiaries under your payment option.

Death Benefit #2

This section would appear only if you are a Tier II member who is covered under Death Benefit #2. The election (or deemed election) of Death Benefit #2 upon enrollment in TRS provides that a lump-sum, post-retirement death benefit be payable to the member's designated beneficiaries. This benefit is based on the amount in force (*i.e.*, payable) had the member died in active service on his/her retirement date. This part of the Benefits Letter indicates the death benefit in force at retirement and the amounts that may be payable subsequently.

Tax Information

This section discusses the taxability of your retirement allowance. If you are a service retiree, your retirement allowance is federally taxable. If you are an accident disability retiree, the entire "regular pension" component of your monthly benefit is tax-free, while the annuity portion of your monthly benefit is generally taxable. (See **Payment Breakdown** on page 3 for an explanation of these components.) If you live outside New York State, your retirement allowance may be taxed by the state and city in which you live.

If you received advance payments of your service retirement allowance, federal income taxes were withheld at the rate for a married person with three dependents, as required by the Internal Revenue Service (IRS). This withholding rate would continue for all advance payments and for your regular retirement allowance payments until you file a withholding election with TRS. You may change this rate at any time by completing a "Withholding Certificate for Pension or Annuity Payments" (W-4P) and returning it to TRS, or by filing an online equivalent through our website.

If you retired under accident disability retirement, taxes were not withheld from your advance payments; taxes will be withheld from any taxable portion of your regular retirement allowance payments.

Your withholding election would generally take effect approximately two to six weeks after TRS receives your online W-4P filing, or approximately two months after TRS receives your hardcopy form. (Please note that, if you have a permanent home address outside of the United States, IRS regulations

prohibit you from electing to have no federal income tax withheld from your pension or annuity.)

Note: You may choose to pay estimated taxes on your retirement allowance instead of having taxes withheld. You should contact your accountant or tax consultant for more information.

This section also shows your “investment-in-contract,” which represents the balance of any contributions that you made to your ASF account prior to 1987. (Please note that any tax-free excess withdrawals that you made reduced this balance.) These amounts were previously subject to federal taxes and are therefore tax-free at distribution. To account for these tax-free funds, a portion of your retirement allowance, which is known as an “exclusion,” may not be taxable. Your monthly exclusion amount is shown in this part of the Benefits Letter.

Investment Elections

This section shows how the ASF and ITHP portions of your QPP funds were allocated among TRS’ Passport Funds as of your payability date. The investment elections that you made on your retirement application (or any superseding elections) are also listed here. Please note that any new conversion of funds began as of your initial payability date, and any prior conversions that were in progress were stopped as of that date.

You may change the way your QPP funds are invested, on a quarterly basis, by filing a “Retiree’s QPP Investment Election Change Form” (code RP8) with TRS at any time. Investment election changes take effect on the following conversion dates: April 1, July 1, October 1, and January 1. Your elections would take effect on the next conversion date that occurs at least 60 days after TRS receives your form. (Please be advised that investment election changes cannot be effected until the quarter after your retirement allowance has been finalized.)

Calculating Your Retirement Allowance

As noted previously, your retirement allowance is made up of two components, the regular pension and the annuity portion; this section shows in detail how these two portions were computed.

Note: Figures on the Benefits Letter are rounded for some calculations. Therefore, if you were to do the calculations yourself, you may see slight differences from the results on your Benefits Letter.

Regular Pension

Your regular pension was calculated using your FAS, your Total Service Credit, and certain benefit percentages based on the tier, type of retirement, and retirement plan under which you retired. Using the formula shown on the Benefits Letter, these figures produced an “unadjusted pension.” Some elections you made at retirement may have caused reductions to this amount. For example, if you chose to receive payments before meeting the applicable age requirement for your tier, your pension was subject to an age reduction related to your age at payability. Also, if you chose a payment option that provides a death benefit for your beneficiaries, a separate reduction may have been applied in order to fund this benefit.

For Tier I/Plan A and Tier II/Plan C members, the first reduction applied to the unadjusted pension is the subtraction of the “actuarial equivalent of the minimum accumulation”; this deduction allows the City of New York to set aside funds for your Plan A/C benefits. The minimum accumulation is the amount that Tiers I/II members are required by law to have in their ASF account in order to be eligible for full benefits under Plan A/C. Each Tiers I/II member has an individualized minimum accumulation based on prior service, age at membership date, and salary history from the TRS membership date to the 20-year date. Your “required ITHP amount” represents ITHP contributions made during your first 20 years of total credited service, with interest to your retirement date. The sum of these two figures (the minimum accumulation and the required ITHP) was divided by an annuity factor based on life expectancy to determine the actuarial equivalent of your minimum accumulation. This calculation is shown on your Benefits Letter. After all necessary reductions are made, the result is the “Annual Regular Pension”; see *Actuarial Calculations*.

Annuity Portion

The annuity portion of your retirement allowance is computed based on the balances in your ASF and ITHP accounts (a dollar amount for funds in the Fixed Return Fund and a number of units for funds in the variable-return Passport Funds) as of your payability date. These balances are known as “initial reserves.” Please note that all of the initial reserve balances shown on your Benefits Letter were adjusted to reflect

the following transactions: any excess withdrawals and QPP loans taken at retirement and any outstanding QPP loan balance at retirement.

Upon your retirement date, your ASF initial reserves were transferred into Annuity Reserve Fund balances, and your ITHP initial reserves were transferred into Pension Reserve Fund balances. Those reserve balances were then divided by an annuity factor (which is based on your age on your payability date and the type of retirement) to produce the maximum amount of your annuity portion. If you elected a payment option that provides a death benefit for your beneficiaries, a reduction was applied to your annuity in order to fund this benefit; that reduction is shown under the column titled "Option Factor." The Benefits Letter shows this calculation. The column marked "Allowance Under Option" shows the total amount of your yearly annuity portion under TRS' Passport Funds; see *Actuarial Calculations*.

Actuarial Calculations

Your retirement allowance is calculated using three actuarial methods (based on male, female, and unisex mortality tables), and the retirement allowance that you receive is based on the calculation that yields the highest benefit, known as the "best of three."

Only the calculation yielding the highest benefit is shown on the Benefits Letter. (Please note that the letter does not indicate which method was the "best of three," and does not show the calculations using the other actuarial methods.)

For all members, a "best of three" calculation is made to determine your highest benefit under the Maximum Payment Option. If you retired under a payment option that provides for a beneficiary, the "best of three" calculation is used to determine the highest

benefit under your payment option. Please note that the best method for your option may be different from the best method for the maximum calculation. (For example, the unisex table may provide the highest benefit for the maximum, but the female table may be the best method for the payment option you chose.) In addition, some members may notice that the reduction factors applied to their fixed portion may be different from the factors applied to the variable portions of their retirement allowance. This occurs whenever a member's retirement allowance was calculated using the unisex mortality table.

Post-Retirement Employment

TRS retirees may work while receiving their retirement allowance. However, employment with New York State or any of its political subdivisions after retirement may affect your retirement allowance. The post-retirement employment restrictions are explained in the *Earnings After Retirement* brochure.

Attachment: QPP Beneficiary Designations

This attachment to the Benefits Letter shows the following QPP beneficiary information:

- Your designation(s) under your payment option, if applicable.
- Your designation(s) for your fractional payment.
- Your designation(s) under Death Benefit #2, if applicable.

If you disagree with any of the information in your Benefits Letter, you should file a "Benefits Letter Inquiry Form" (code RC1) with TRS. Please attach a copy of your Benefits Letter, circling or underlining the information that you believe needs to be corrected, and include any supporting documentation.

For your convenience, TRS forms and publications are available on our website.

If you require additional assistance, we encourage you to contact our Member Services Center at 1 (888) 8-NYC-TRS.

This publication should not be solely relied upon, as it is based on currently available information that is subject to change. TRS suggests that you consult with an attorney and/or a tax advisor if you have any specific legal or tax questions concerning this information. In all cases, the specific provisions of the governing laws, rules, and regulations prevail.



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