

Understanding Your Benefits Letter: Tiers III, IV, and VI



As a TRS retiree, 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, 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 and generally will not change from month to month.

As indicated in your Benefits Letter, your retirement allowance consists of two components: a “regular pension” and an Annuity Reserve Accumulation Fund (ARAF) portion. Your regular pension is based on factors such as your Total Service Credit and Final Average Salary (FAS) and is partially funded by your Member Contributions Accumulation Fund (MCAF) balance at retirement. The ARAF portion of your retirement allowance is based on any Annuity Savings Accumulation Fund (ASAF) balance and your age at retirement. Both components are described in further detail in the **Calculating Your Retirement Allowance** section on page 3.

This section of your Benefits Letter indicates the monthly and annual amounts of these two components, as well as your total monthly and annual allowance. If you elected a “pop-up” continuing payment option (*i.e.*, Option 5-1 or 5-2), this part also shows the annual

retirement allowance that would be payable to you if your beneficiary predeceases you.

Note: The monthly dollar amount of your regular pension is indicated next to “PENSION1” on your Electronic Fund Transfer (EFT) Quarterly Statement or retirement allowance check stub, as applicable.

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, and retirement date, as well as the items described below.

Final Average Salary (FAS)

This figure is one of the main components used in computing your retirement allowance.

Under Tiers III and IV, the FAS generally would be the highest average of wages earned during any continuous period of employment for which you were credited with three years of service (subject to certain exclusions). Wages earned during any year used in a FAS calculation cannot exceed the average of the previous two years’ wages by more than 10%; the amount in excess of 10% would be excluded from the computation of FAS.

Under Tier VI, the FAS generally would be the highest average of wages earned during any continuous period of employment for which you were credited with five years of service (subject to certain exclusions). Wages earned during any year used in a FAS calculation cannot exceed the average of the previous four years' wages by more than 10%; the amount in excess of 10% would be excluded from the computation of FAS.

Retirement Tier (Tiers III and IV only)

For retirees who were in Tier IV while in service, this section would show "IV." However, even though Tier III members may receive either Tier III or Tier IV benefits at retirement, this section would show "III," regardless of the member's elections.

Total Service Credit

This amount, which (along with your age) helps determine your retirement eligibility, is the sum of your TRS membership service, transferred service, and credited prior service. 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).

Payability Date (Tiers III and IV only)

This is generally the date on which you meet all the criteria to receive payment of your retirement allowance. For Tiers III and IV members, their payability date is the same as their effective retirement date.

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 any beneficiaries. If you elected an option that provides for a beneficiary, a "J&S," which indicates a joint and survivor benefit, may also appear.

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 as part of your Total Service Credit.

Payment Option

This section describes the terms of the payment option that you elected for your retirement allowance and indicates the benefit payable to your beneficiaries under that option.

Death Benefit #2

This section would appear only if you are 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 ARAF component of your monthly benefit, if any, is taxable. 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 on 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 paper 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 any contributions that you made to your MCAF account prior to July 1, 1989. 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.

Calculating Your Retirement Allowance

As noted previously, your retirement allowance is made up of two components, the regular pension and the ARAF 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 is calculated using your FAS, your Total Service Credit, and certain benefit percentages based on the tier and type of retirement 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 retire before attaining the standard combination of age and Total Service Credit, your pension was subject to an age reduction related to your age at payability. In addition, if you chose a payment option that provides a death benefit for any beneficiaries, a separate reduction was applied in order to fund this benefit.

Any QPP loan balance on your effective retirement date (due to an outstanding balance or a new loan) also resulted in a reduction to the regular pension; this was necessary because any such balance would not be repaid. The loan reduction was calculated by taking your outstanding QPP loan balance at retirement and dividing it by a loan reduction factor, as described in the Benefits Letter. The resulting amount was then subtracted from your unadjusted pension.

Please note that members who retired under Tier III may be subject to additional restrictions:

- If you retired under Tier III, your regular pension would be reduced by 50% of the Social Security benefits you earned in public employment within New York State. This reduction would take effect when your retirement allowance payments begin or when you reach age 62, whichever is later.
- If you retired under Tier III ordinary or accident disability, your regular pension was reduced by 100% of any Workers’ Compensation payments you received.

After all necessary reductions are made, the result is the “Annual Regular Pension.”

Annuity Portion

The annuity portion of your retirement allowance was computed based on the balance in your Annuity Savings Accumulation Fund (ASAF) account at the time of your retirement.

As a reminder, the ASAF contains supplemental contributions (plus interest) provided by the Department of Education (DOE) and some Charter Schools to certain eligible employees who reach the maximum of their salary schedule during their in-service membership. Not all TRS members are eligible for ASAF contributions; these contributions are not provided to adjuncts, college employees, or paraprofessionals. If your position was ASAF-eligible (e.g., teacher), but you did not reach the maximum of your salary schedule during your career, there would be no ASAF balance.

Upon your effective retirement date, any ASAF balance was transferred into an Annuity Reserve Accumulation Fund (ARAF); this balance is known as your “initial ARAF reserves.” This figure was divided by an annuity factor (which was determined using actuarial mortality tables and interest rates) to produce the maximum

amount of your ARAF portion. If you elected a payment option that provides a death benefit for your beneficiaries, an option factor was applied that reduces the ARAF portion in order to fund this benefit.

The Benefits Letter shows this calculation. The “Annual ARAF” figure represents the yearly annuity portion of your retirement allowance.

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, please 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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