

## Eligibility for Retirement

*(Please note this section pertains to those members who were under age 57 and had less than 25 years of service credit on June 30, 2010 - otherwise known as group 2 members. See "Important Notice" listed on website for more details.)*

### Normal Retirement

You are eligible to receive a normal retirement benefit when you reach age 65 or when the sum of your age and service credit equals 90.

### Early Retirement

You are eligible for an early retirement benefit after you have completed five years of service and have attained age 55. An actuarial reduction is made for each month under the age of 65.

### Vested Deferred Retirement

If you terminate service before age 55, and accrued five (5) or more years of service before termination you may be eligible for a vested deferred retirement benefit.

### Disability Retirement

If you become disabled, you are eligible to apply for disability retirement if notice is filed with our office **no later than 90 days after the date you separated from service**, and you have five or more years of creditable service, and served as a teacher in the state during the five years immediately preceding the date of separation from service. Your application is subject to review and certification by the Medical Review Board (MRB) and approval by the Board of Trustees that you are disabled on the basis of medical evidence. You are considered eligible for a disability pension if it is certified by the MRB that you have a physical or mental condition that prevents you from performing the duties of your position.

An annual review of the status of your disability may occur and would be based thereafter on your ability to perform any occupation. Post-disability income would be considered and can reduce your benefit. Your eligibility ceases at the end of the month in which you recover and/or are determined no longer disabled. Termination of a disability pension does not affect your right to apply for a transfer to a normal or early pension benefit, if qualified.

You should contact the Retirement Office if you have any questions concerning disability benefits or the application process.

## Applying for Benefits

**Retirement benefits are not automatic; you must apply for them.** Contact the Retirement Office at least 9 months prior to the date that you plan to retire for an estimate, application materials, and health insurance and tax forms. Upon written application you may retire on a service retirement allowance on the first day of the calendar month next following the filing of the application or your separation from service, whichever date is later, provided that you have attained age 65 or when the sum of your age and service credit equals 90 at the date of retirement.

Retirement benefits are paid monthly on the last business day of the month, starting with the end of the month in which your retirement occurs. Your retirement date is normally the first day of the month following your last day at work. Your written application must be filed prior to payment of retirement benefits.

Electronic banking is mandatory for all new retirements after January 1, 1999. A retiree shall have the monthly check electronically deposited to a checking or savings account. The pension is in the retiree's account on the last business day of each month. Remember that we are here to help you plan your retirement. It is recommended that you request a retirement estimate a year or two in advance to assist you in your retirement planning.

## Tax on Retirement Benefits

Retirement benefit payments are comprised of annuity (the portion of the benefit that comes from the member's contributions), and pension (the portion paid by the retirement system).

Most of your benefit will be taxable, but an exclusion ratio will be applied so that a specified amount will be excluded from tax if you made contributions prior to July 1, 1992 on an after tax basis. This exclusion ratio is based on the total after-tax contributions that you made during employment, or from a post-tax purchase of service credit, prior to retirement.

Federal tax regulations require that we withhold tax on retirement allowances for all recipients unless a waiver of withholding form is filed with this office. Members will receive more detailed information regarding tax withholding at the time they retire.

A Form 1099R will be mailed following the end of each calendar year that provides the necessary information to file tax returns. It should be noted that the payment dated December 31 would be included in that calendar year total, even though it may not be received until January. The Retirement Office is, however, unable to further assist or advise in the preparation of members' tax returns. Retirees should consult an accountant or attorney, or Federal and State tax authorities, for any other information concerning taxation of the allowance received from the VSTRS.

A monthly statement itemizing the current and year-to-date withholdings is mailed to each retiree only when a change occurs in the gross or net amounts.

## Calculating Your Retirement Benefits

### Normal Retirement

One of the components in calculating the amount of your pension benefit is determined by your Average Final Compensation (AFC). Your AFC is the average of your three highest consecutive years of earnings. Another component is the number of your years of creditable service at retirement or termination. For normal retirement at age 65 or when the sum of your age and service credit equals 90, there is no reduction in benefits for age. Assuming you have 30 years of service credit and are age 60, your annual benefit is calculated as follows:

$$\begin{aligned} & \text{Group B Service} \times .0125 \times \text{AFC} \\ & \quad (\text{Service prior to 7/1/90}) \\ & \quad \text{plus} \\ & \text{Group C Service} \times .0167 \times \text{AFC} \\ & \quad (\text{Service from 7/1/90}) \\ & \text{Group C Service after attaining 20 years} \times .02 \times \text{AFC} \end{aligned}$$

For example, if your three highest consecutive years of salary were \$39,000, \$42,000, and \$45,000, (the AFC would be \$42,000) and you have 20 years of service under Group B service and 8 years under Group C, plus 2 years earned after July 1, 2010, your benefit would be calculated as:

$$\begin{aligned} & 20 \times .0125 \times \$42,000 \\ & \quad \text{plus} \\ & 8 \times .0167 \times \$42,000 \\ & \quad \text{plus} \\ & 2 \times .02 \times \$42,000.00 \\ & \quad \text{equals} \\ & \$17,791 \text{ annually or} \\ & \text{about } \$1,483 \text{ a month} \end{aligned}$$

Note that age has no impact upon this retirement benefit because you have met the rule of 90 – the sum of your age and service credit equals 90. This is called Option 1, (basic) or maximum benefit. It is paid in full for your life, or it may be reduced to provide a survivor benefit. By law, your maximum benefit cannot exceed 60% of your AFC.

## **Early Retirement**

If you are at least age 55 but do not meet the rule of 90, you can take early retirement. Your benefit is calculated the same as a normal retirement benefit, but an actuarial reduction is applied for each month you are under age 65.

For instance, if you have an AFC of \$35,000 and are age 58 and 3 months at retirement with 20 years of Group C service, the early reduction factor would be .555434 and your benefit would be:

$$\begin{aligned} 20 \times .0167 \times \$35,000 \times .555434 \\ \text{equals} \\ \$ 6,493 \text{ annually or} \\ \text{about } \$541 \text{ a month} \end{aligned}$$

## **Disability Retirement**

If you have 5 years of service and are unable to perform your duties because of a disability, which is likely to be permanent, you may apply for a disability retirement benefit. Your disability benefit is calculated without penalty the same way as a normal benefit, except there is a minimum benefit equal to 25% of your AFC.

**Please note that you must provide notice of your intent to apply for a disability retirement benefit within 90 days after separation of service with the State of Vermont.**

## **Vested Benefit**

If you have 5 or more years of service and leave employment as a teacher before age 55, you are entitled to a vested retirement benefit provided that you do not withdraw your contributions. Your vested retirement benefit is payable to you at age 65 (or as early as age 55 with a penalty applied), and is calculated in the same way as a normal retirement benefit or early retirement depending on your age. You may always request a refund of your retirement plan contributions plus accumulated interest even after your account has been placed in a vested, deferred status. A refund will cancel your retirement service credit and any right to future retirement benefits.

## **Survivor Benefits (Death In Service)**

### **Eligibility**

Death benefits are any payment made by the retirement system to a beneficiary of a deceased member of the system. Such payments may take the form of the refund of the accumulated contributions, or lifetime monthly payments if the beneficiary qualifies for such payments.

If you die as a member before termination or retirement and have 10 years of service or are age 55 with five years of service, a benefit is payable to your designated dependent beneficiary.

### **Amount of Survivor Benefit**

The benefit payable to your designated dependent beneficiary is calculated as if you had retired on the date of death and had chosen Option 5 (100% Survivorship). Your designated dependent beneficiary may choose to receive a refund of contributions in lieu of the survivor benefit.

## **Children's Benefit**

If you are in service at date of death, on leave of absence under board rules or on an approved leave of absence for military service or professional study, with one or more years of creditable service, or if your death was the result of an accident, a pension equal to 10% of your AFC but not less than \$50 a month will be payable to up to three dependent children under age 18 and to age 23 if the child is a full-time, unmarried, dependent student. Additional provisions are applicable to disabled children.

## **Other**

If you do not meet the eligibility requirements for a survivor benefit or do not have a designated dependent beneficiary, the lump sum value of your contributions and interest will be paid to your designated beneficiary or your estate.

## **Retirement Options**

### **Option 1 (Maximum Benefit)**

The basic or maximum benefit, or Option 1, is payable for your life with no benefit or refund of contributions at your death. If you make no election, your benefit will be paid as an Option 1 benefit. At retirement you may choose to have a reduced benefit in order to provide continued income to your spouse or other beneficiary should you predecease them, as outlined below.

### **Option 2 (Guaranteed Return)**

In a contributory system, there will always be accumulated member contributions on your account. By taking Option 2, you receive a benefit slightly lower than the basic benefit, but the balance of your accumulated contributions at retirement, less the sum of annuity (portion of total benefit attributable to your contributions) payments made to you, will be paid in a lump sum to your designated beneficiary. This option generally results in a payment if you die within ten to thirteen years after retirement.

### **Option 3 (50% Survivorship)**

This option gives your beneficiary 50% of your pension payment should you predecease your designated beneficiary. The reduction for this option from the Option 1 benefit averages between 5% and 15%, depending on the ages of you and your beneficiary.

### **Option 4 (75% Survivorship)**

This option is similar to Option 3, but your beneficiary receives 75% of your benefit. Since the beneficiary's benefit is greater than in Option 3, the reduction in your benefit is also greater. The reduction averages between 7% and 20%, depending on the difference in your ages.

### **Option 5 (100% Survivorship)**

This option is also similar to Option 3, but your beneficiary receives 100% of your benefit. Since the beneficiary's benefit is greater than Option 3 or Option 4, there is a greater reduction in your benefit. The reduction averages between 10% and 25%, depending on the difference in your ages.

## **Pop-Up Options**

Each of Options 3, 4, and 5 can be elected with a "pop-up" feature. If your beneficiary dies first or based on the stipulations contained in a Domestic Relations order, your benefit will increase to the amount which would have been payable under Option 1. As a result, the reduction in your payment is slightly greater than it would be under the options without the pop-up feature.

## Examples of Survivorship Options

Option	Amount Payable to Retired Member (retired at age 65)	Amount Payable to Beneficiary (two years younger)
Option 1 (Basic Benefit)	\$1,000	\$0
Option 3 (50% Survivorship)		
Regular	\$924	\$462
Pop-Up	\$915*	\$457
Option 4 (75% Survivorship)		
Regular	\$890	\$668
Pop-Up	\$877*	\$658
Option 5 (100% Survivorship)		
Regular	\$859	\$859
Pop-Up	\$843*	\$843

\*If beneficiary dies first, the member's benefit pops up to \$1,000 in this case.

### Level Income Option

At age 62, you will probably be eligible to receive a Social Security retirement benefit. Some members, however, retire before reaching age 62 and would like to increase their benefit through the Level Income Option.

Under this option, a member elects to receive a percentage of the member's estimated Social Security benefit from the Retirement System before Social Security actually begins, and then receives a reduced allowance from the System after age 62 when Social Security is received. The actual Social Security benefits you receive will not affect the Level Income Option after the initial calculations are made.

For example, suppose you have received an estimate from the Social Security Administration that your benefit at age 62, if you retire now, will be \$600 monthly. Further suppose your retirement benefit from the System is \$800 monthly. Under this option a percentage of the estimated Social Security benefit based upon your age (the younger you are, the smaller the percentage), is added to your retirement benefit. If you are age 59, for example, with the above \$600 estimate from Social Security, \$470 would be added to your retirement benefit and you would receive a total of \$1,270 monthly from the System until you reach 62. At age 62, \$600 would be subtracted from your monthly amount and you could receive \$670 thereafter for the **remainder of your lifetime**.

The \$600 from Social Security keeps your total income "level", so you will receive a total of \$1,270 each month from the System and Social Security.

If you also elect a survivorship option, the survivor benefit is paid based on your benefit before adjustments for the Level Income Option. On an actuarial basis, the Level Income Option is cost neutral.

It sometimes allows a member to retire when retirement would otherwise be impossible, but if the member lives far beyond age 62, the option may have been a poor choice since the reduction in benefit after age 62 will continue for as long as you live.

### **Cost-of-Living Adjustment (COLA)**

Group C, group # 2 retirees receive cost-of-living adjustments if they retired with a normal or disability retirement and have received twelve checks. These adjustments are made each January to those members who have been retired for at least one calendar year, and are based upon  $\frac{1}{2}$  the preceding June 30 Consumer Price Index (CPI) increase or decrease, with an annual adjustment ceiling of 5% and a minimum of 1%.

Group C, group #2 members who retire under an early retirement allowance receive a COLA the January after attaining the age of 65.