

## **Tucson Supplemental Retirement System End of Service Program - Frequently Asked Questions from Membership**

**Q:** I am eligible to retire now and considering entering the End of Service Program. What are the highlights of this program, and how is that different just retiring right now?

**A:** First, remember that it's the member's choice to enter the End of Service (EOS) Program. The End of Service program provides a Tucson Supplemental Retirement System (TSRS) member with the ability to quickly save up 12 months of pension benefits, while they earn their normal pay in their final year. In short, it's a last minute savings program that can add some money to your retirement savings. At the end of the month following departure from employment, the first pension payment is mailed, plus a payment for the End of Service program account, which can be 12 month's pension benefits.

Although the EOS program allows each member to participate for twelve months, it is flexible for early departures, allowing the member leave employment earlier without completing the full twelve-month period.

**Q:** Are there any deadlines dates involved, or timing considerations with entering the End of Service Program?

**A:** First, the End of Service program is scheduled to sunset, or end on December 31, 2010. In addition, the program has a monthly cutoff day that is applied 10 days prior to the end of each month. All employees enter the End of Service on the 1<sup>st</sup> day of the month following the completion of their paperwork by the cutoff deadline.

**Q:** How is the payment determined for the End of Service payments and End of Service Program?

**A:** The End of Service Program payment is based on the retirement benefit option selected by the member. At the same time a member considers whether to enter the End of Service program, the member is asked to choose which benefit option they want for retirement. Because both of these decisions must be made upon entering EOS, careful consideration and appropriate advance planning is essential.

**Q:** What if I decide to leave before the end of the 12 months, when is the End of Service payment made, and when is my first pension benefit payment made?

**A:** If you are in the End of Service Program, and you want to leave early, the day of the month of your termination can affect your income planning for that month. If you leave on or before the 10<sup>th</sup> of the month, your accumulated End of Service benefits will stop as of the end of the preceding month, and your EOS payment and your monthly pension payment will be made at the end of that first month. If you terminate after the 10<sup>th</sup> of the month, your EOS payment will be added for that month, but your monthly pension payment and your End of Service payment will not be made until the end of the following month.

**Q:** I understand I can defer taxation of the End of Service Benefit payments, how do I do that?

**A:** When a member signs up for the End of Service program, the member will be asked to indicate if they would like to receive their accumulated benefit payment in cash or if they want this payment directly rolled over to a tax deferred account.

Choosing the cash payment option for the EOS benefit results in 25% Federal taxes withholding and 5% State income taxes withheld on the gross payout of the accumulated amount. In addition, a cash payment to the a member who has not reached the age of 59 ½ at the time the distribution of End of Service monies occurs, the payment could be subject to an early distribution penalty on the EOS benefit reported on your income tax return.

**Q:** Explain the mechanics of going into the End of Service Program; is it any different than retiring?

**A:** Entering the End of Service Program has some points similar to retiring and some that are not. As part of the entry requirements for End of Service, each member is asked to sign a series of forms, which are briefly described:

- Similar to retirement, the member makes a series of irrevocable elections to receive a specific type of retirement benefit, and cannot reverse the decision to enter the End of Service Program. After you enter the program, you cannot exit.
- Resignation and Acceptance Form - indicates the member's effective entry date for the End of Service Program and they are voluntarily resigning from City service and cannot exceed the twelve months available in the program.
- Election to Participate in the End of Service Program – the member acknowledges they will have payments credited to their account that cannot exceed 12 months.
- Vacation Leave contribution election – the member arranges to have their final contributions to the pension system for the amount owed on accrued vacation leave, selecting from either a single paycheck or over the next four paychecks following entry into the EOS program. Pension contributions deducted from the member's paycheck prior to entering the EOS program are stopped once the final collections are made for vacation leave pay accrued on the entry date and unused entry before
- Member's Lump Sum Distribution Election - the member selects how they would like to receive the payment of their End of Service Program monies; either in cash, or directing that money to a tax deferred account.

Unlike retirement, a member entering the End of Service Program continues to work for up to one more year. During that final year in EOS, no further service credits are earned by the member while participating in the program. Also, any other changes to the member's pay for salary increases or promotional opportunities and changes that might be affected by sick or vacation leave times that are unused and accrued at termination have no effect on the member's pension calculation. That's because the member's pension benefit is locked in place on the date of entry to End of Service.

**Q:** I'm not sure if I should work one more year, and increase my pension benefits for life by having the additional year of service credit, or if I should enroll in the End of Service Program. Can I get some general information on the real difference between these two approaches?

**A:** To compare the two alternatives, some baseline information and simple assumptions will be used. Assume the member is eligible on their 55<sup>th</sup> birthday on August 1, 2009 with 25 years of credited service and an average final monthly salary for their pension calculation of \$3,500. For this illustration to be valid, we have to ignore the effect of another years worth of potential accrued leave time and no differences for the average final monthly salary for the one year period between August 1, 2009 and August 1, 2010.

If the member chooses to go into the end of service program on August 1, 2009, a monthly benefit of  $(\$3,500 \times 25 \text{ yrs.} \times 2.25\% = \$1,969)$  \$1,969 will accumulate for 12 months, or  $(\$1,969 \times 12 = \$23,628)$  \$23,628 by the end of the year. If the member chooses to retire one year

later, and accumulate another year of service credit, the monthly benefit would be \$2047.50/monthly ( $\$3,500 \times 26 \text{ yrs.} \times 2.25\% = \$2,047.5$ )

**Q:** I understand the City's current policy for covering 75% of retiree medical insurance benefits will be changing on January 1<sup>st</sup>, 2011. What affect does the End of Service Program have on this policy?

**A:** Although this is a retirement benefit paid for by the City, it is not paid for by the pension system. The City pays for a portion of retiree medical insurance premiums until the retiree reaches medicare-eligibility at age 65. A special provision was added, to allow eligible employees that elect to enter the End of Service Program by the (December 21<sup>st</sup>) cutoff date for December 31, 2010 receive the current subsidy policy for medical insurance premiums. By entering the End of Service program with an effective date of January 1, 2011, an employee can extend their working career through the end of December 2011 and still get the 75% subsidy provided to all employees retiring on or before December 31, 2010.

**Q:** I am "close" to reaching magic 80 for retirement eligibility; but will not be eligible by to retire December 31, 2010. If I work full time until the end of September 2011, I could retire, but I want to know how I can get into the End of Service Program by December 31, 2010 so I can receive the City provided 75% medical insurance subsidy? (Note: I will be age 57 on December 31, 2010 and have exactly 21.5 years of accrued service at that time).

**A:** TSRS has a purchase of service program that allows you to buy service credits which can make you eligible to retire at a target date. This approach can be tricky, because the date you become eligible depends on your exact age and the exact amount accrued pension service credits you have at retirement, including any accrued and unused sick and vacation leave time. Quite often, the employees forget and use up some of their accrued leave time they expected to have for retirement eligibility and fail to be eligible to retire when they get to the magic date.

Also, buying your way to retirement is expensive. Generally speaking, the cost to buy service credits increases as the employee approaches retirement eligibility. In other words, if you are buying service credits at the last minute, the highest rate is charged to make up for the fact that that system will soon be paying a benefit out, and it has not had much time to earn a return on your member contributions. A typical rate for a person nearly eligible to retire is 28% of their annual salary for buying one point for one service credit year. In this example, the employee's annual salary was \$36k and the number of points needed was 1.5. The cost to purchase that year and a half needed for eligibility cost \$14,094 (26.1% of  $\$36,000 \times 1.5 \text{ yrs.}$ ).

General comment: buying your way to retirement is a quick way to exit the workforce and spend down hard earned retirement savings. That said, in this example, the retiree will receive pension benefits approximately 10 months earlier than was otherwise possible. With an estimated monthly pension benefit of ( $\$3,000 \times 23 \text{ yrs.} \times 2.25\%$ ) \$1552.5, the "early" receipt of 10 months of pension benefits, or \$15,525 accounts for approximately the same amount paid for the purchase.

Planning your retirement requires careful planning and should not be done without asking a lot of questions, advice from a financial planning consultant and careful consideration of your individual circumstances.