

# Pension Options

Public Employees' Retirement System • Teachers' Pension and Annuity Fund

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## ESTIMATING YOUR RETIREMENT ALLOWANCE

**If you are within two years of retirement**, you may obtain an estimate of your retirement benefits online using the **Member Benefits Online System (MBOS)**. Estimates obtained through MBOS provide the most accurate information available by using the service and salary information currently posted to your account. Before you can begin using the system, you must be registered with MBOS. Registration is free. To begin the MBOS registration process go to: [www.nj.gov/treasury/pensions/mbosregister.shtml](http://www.nj.gov/treasury/pensions/mbosregister.shtml)

You may also call the Division of Pensions & Benefits' Automated Information System at (609) 292-7524 to hear an estimate of your retirement benefits over the phone. Please have your pension membership and Social Security numbers available when you call.

(Telephone estimates are not available for members of the PERS Prosecutors Part, Workers' Compensation Judges, or PERS Law Enforcement Officers-LEOs.)

**If you are more than two years from retirement**, you may calculate your own retirement allowance using the online retirement estimate calculator on the Division of Pensions & Benefits' website: [www.nj.gov/pensions/ret-estimate.shtml](http://www.nj.gov/pensions/ret-estimate.shtml) or using the worksheet and instructions in Fact Sheet #54, *Calculating Your Own Retirement Allowance*.

## PENSION PAYMENT OPTIONS

When planning for retirement, you must be familiar with the pension payment options available to you from the retirement system. You should also consider your financial needs in retirement, your health, your beneficiary's health, the need to provide survivor benefits, life insurance benefits, and income from other sources such as Social Security benefits, investments, etc.

When you apply for retirement, you will have to choose one of nine ways to receive your retirement benefits. Please be sure you understand the different payment options available to you, because **once you have made your choice and your retirement becomes due and payable (usually when your first check is issued), you cannot change your payment option.**

### Maximum Option - No Pension Benefit to a Beneficiary

The Maximum Option, also called a single-life annuity, is the highest amount payable and provides a retirement benefit to you for the remainder of your life. If you are not concerned with providing either a lump-sum benefit or monthly income to another person after your death, the Maximum Option may be the most appropriate payment choice for you. The benefit payments continue for your lifetime only. Upon your death, benefits end and your survivors do not receive a pension allowance.

If you die before receiving back the amount that you paid into the retirement system while working (including interest on those contributions), the balance of your contributions will be paid to your beneficiary.

**OPTIONS OTHER THAN THE MAXIMUM**

**Under Options A, B, C, or D you receive a smaller monthly benefit than that provided under the Maximum Option** so that, upon your death, your beneficiary will receive a lifetime monthly pension. The percentage of reduction is based on the life expectancies of both you and your beneficiary at the time of your retirement and the option selected. Therefore, the younger your beneficiary, the greater the percentage of reduction in your benefit. Your beneficiary under these options must be an individual. You may not designate a charity, institution, your estate, etc. as a beneficiary. (In limited circumstances, a **Special Needs Trust** can be designated as a survivor option.)

**Option A - 100% to Beneficiary - Increase to Maximum Option**

Option A, also called a 100% joint and survivor benefit, provides a lifetime monthly payment to you. If your beneficiary is living at the time of your death, your beneficiary will receive 100% of your monthly retirement allowance for life. If your beneficiary dies before you, your retirement allowance will increase to the Maximum Option. You can name only one beneficiary for this benefit and your beneficiary can never be changed after retirement.

**Option B - 75% to Beneficiary - Increase to Maximum Option**

Option B, also called a 75% joint and survivor benefit, provides a lifetime monthly payment to you. If your beneficiary is living at the time of your death, your beneficiary will receive 75% of your monthly retirement allowance for life. If your beneficiary dies before you, your retirement allowance will increase to the Maximum Option. You can name only one beneficiary for this benefit and your beneficiary can never be changed after retirement.

**Option C - 50% to Beneficiary - Increase to Maximum Option**

Option C, also called a 50% joint and survivor benefit, provides a lifetime monthly payment to you. If your beneficiary is living at the time of your death, your beneficiary will receive 50% of your monthly retirement allowance for life. If your beneficiary dies before you, your retirement allowance will increase to the Maximum Option. You can name only one beneficiary for this benefit and your beneficiary can never be changed after retirement.

**Option D - 25% to Beneficiary - Increase to Maximum Option**

Option D, also called a 25% joint and survivor benefit, provides a lifetime monthly payment to you. If your beneficiary is living at the time of your death, your beneficiary will receive 25% of your monthly retirement allowance for life. If your beneficiary dies before you, your retirement allowance will increase to the Maximum Option. You can name only one beneficiary for this benefit and your beneficiary can never be changed after retirement.

**Option 1 - Reducing Retirement Reserve to a Beneficiary**

Option 1 provides a lifetime monthly payment to you. Your retirement allowance is reduced from what you could collect under the Maximum Option. It is also different from the Maximum Option in that it *may* provide a lump-sum payment to your beneficiary after your death. At the time of your retirement, a reserve of money is calculated. This is called your retirement reserve. If you die before you receive monthly retirement benefits equal to your retirement reserve, your beneficiary is entitled to the balance. The balance will be paid in a lump sum or the beneficiary may request payment in equal monthly payments over 5, 10, 15, or 20 years, or as a life annuity.

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You may name more than one beneficiary for this option and you can change your beneficiary at any time. Your beneficiary may be a person, a charity, an institution, or your estate.

For example, if your monthly retirement allowance is \$2,000 and your retirement reserve is \$230,400, your beneficiary would be entitled to the following payment depending on when you died (16 or 120 months after retirement as shown below).

|   |           |
|---|-----------|
| Retirement Reserve                            | \$230,400 |
| Retirement Benefits Paid (death at 16 months) | \$32,000  |
| Beneficiary Benefit                           | \$198,400 |

|  |           |
|--|-----------|
| Retirement Reserve                             | \$230,400 |
| Retirement Benefits Paid (death at 120 months) | \$240,000 |
| Beneficiary Benefit                            | \$0       |

Since the retirement reserve is based on your retirement allowance and your age, your own reserve may be much different than this example.

**Under Options 2, 3, or 4 you receive a smaller monthly benefit than that provided under the Maximum Option** so that, upon your death, your beneficiary will receive a lifetime monthly pension. The percentage of reduction is based on the life expectancies of both you and your beneficiary at the time of your retirement and the option selected. Therefore, the younger your beneficiary, the greater the percentage of reduction in your benefit. Your beneficiary under these options must be an individual. You may not designate a charity, institution, your estate, etc. as a beneficiary.

**Option 2 - 100% to Beneficiary - Permanent Reduction**

Option 2, also called a 100% joint and survivor benefit, provides a lifetime monthly payment to you. If your beneficiary is living at the time of your death, your beneficiary will receive 100% of your monthly retirement allowance for life. You can name only one beneficiary for this benefit and your beneficiary can never be changed after retirement. This is similar to Option A except that if your beneficiary dies before you, you will continue to receive the reduced retirement allowance you had been receiving under this option.

**Option 3 - 50% to Beneficiary - Permanent Reduction**

Option 3, also called a 50% joint and survivor benefit, provides a lifetime monthly payment to you. If your beneficiary is living at the time of your death, your beneficiary will receive 50% of your monthly retirement allowance for life. You can name only one beneficiary to receive this benefit and the beneficiary can never be changed after retirement. This is similar to Option C except that if your beneficiary dies before you, you will continue to receive the reduced retirement allowance you had been receiving under this option.

**Option 4 - Choice of Amount to Beneficiary - Permanent Reduction**

If the preceding payment options do not meet your financial needs, you may want to consider this option. Option 4 provides a lifetime monthly payment to you. If your beneficiaries are living at the time of your death, they will receive whatever monthly allowance you decide for life (this can be no more than your own allowance). You can name more than one beneficiary to receive this benefit and the beneficiaries can never be changed after retirement. If any of your beneficiaries die before you, you will continue to receive the reduced retirement allowance you had been receiving under this option.

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| <b>Pension Benefit to Beneficiary Upon Death of Retiree</b> |      |          |                              |                             |                             |                             |
|---|------|----------|------------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | None | Lump Sum | 100% of Retirement Allowance | 75% of Retirement Allowance | 50% of Retirement Allowance | 25% of Retirement Allowance |
| Maximum   | X    |          |                              |                             |                             |                             |
| Option A  |      |          | X                            |                             |                             |                             |
| Option B  |      |          |                              | X                           |                             |                             |
| Option C  |      |          |                              |                             | X                           |                             |
| Option D  |      |          |                              |                             |                             | X                           |
| Option 1  |      | X        |                              |                             |                             |                             |
| Option 2  |      |          | X                            |                             |                             |                             |
| Option 3  |      |          |                              |                             | X                           |                             |
| Option 4*   |      |          |                              | X                           | X                           | X                           |

\*Under Option 4 you can name any dollar amount less than your allowance to be paid to a beneficiary(ies).

**Age Limits on Nonspouse Beneficiaries**

For all options, you can name your spouse as your beneficiary regardless of your spouse's age. For Options C, D, 1, or 3, you can name someone other than your spouse as beneficiary regardless of age.

For Options 2, A, or B, if you are naming a beneficiary who is not your spouse, Internal Revenue Service regulations restrict the age of your beneficiary.

**Note:** Because the Internal Revenue Service is a federal agency, a civil union partner or domestic partner, as defined under New Jersey State law, does not qualify as a “spouse” under these circumstances and would be subject to the age limitations described.

**For Options 2 and A (100% to beneficiary):**

- If you are age 70 or older at retirement, your nonspouse beneficiary can be no more than 10 years younger than you.
- If you are under age 70 at retirement, determine 1.) the number of years difference between your age at retirement and age 70; and 2.) the number of years difference between your age at retirement and the age of your nonspouse beneficiary. Subtract the age 70 difference from the difference in age between yourself and your beneficiary. The resulting age difference can be no more than 10 years (younger than you).

**For Option B (75% to beneficiary):**

- If you are age 70 or older at retirement, your nonspouse beneficiary can be no more than 19 years younger than you.
- If you are under age 70 at retirement, determine 1.) the number of years difference between your age at retirement and age 70; and 2.) the number of years difference between your age at retirement and

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the age of your nonspouse beneficiary. Subtract the age 70 difference from the difference in age between yourself and your beneficiary. The resulting age difference can be no more than 19 years (younger than you).

If you name a nonspouse beneficiary under **Option 4**, and the dollar amount of your beneficiary's pension is more than half of your allowance, restrictions on your beneficiary's age apply.

**Proof of Age Documentation**

If you choose Option 2, 3, 4, A, B, C, or D, proof of age documentation is required for both you and your designated beneficiary. Proof of age documents include a copy of any of the following:

- Birth certificate — with visible seal;
- Passport;
- A U.S. passport card;
- A current digital New Jersey driver's license or digital non-driver's ID card issued by the N.J. Motor Vehicle Commission;
- A current digital Pennsylvania or New York driver's license;
- Naturalization or immigration papers.

Unacceptable documentation includes military records indicating your age, expired documentation, out-of-state driver's licenses (except PA and NY), hospital birth certificates, marriage certificates, census records, baptismal records, or affidavits from older family members.

You should mail photocopies of the proof of age documentation at the time you submit your online application to the Retirement Bureau, Division of Pensions & Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

**Power of Attorney and Option Selection**

A person acting on behalf of a member, other than a legal guardian, cannot choose a pension option other than the Maximum Option (and cannot name themselves as a life insurance beneficiary). However, a person with legal power of attorney on behalf of a retiring member can:

- Apply for retirement on behalf of a member;
- Choose any pension option; and
- Name themselves as the beneficiary for that pension option.

**Note:** For the group life insurance, the power of attorney documentation must specifically state that the person acting as power of attorney has the right to designate or change beneficiaries for group life insurance and, additionally, must specifically grant them the right to name themselves.

**IF THE BENEFICIARY DIES BEFORE THE RETIREE**

Under Options 2, 3, and 4, if your beneficiary dies before you, your retirement allowance remains at the reduced option level. Under Options A, B, C, and D, if your beneficiary dies before you, your retirement increases to the Maximum Option. Options A through D provide a smaller retirement allowance to you and your beneficiary, when compared to similar Options 2, 3, and 4, to pay for the larger retirement allowance you would collect if your beneficiary dies before you:

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| <b>Retiree Allowance Upon Death of Beneficiary</b> |                                   |                                |
|--|-----------------------------------|--------------------------------|
|  | Stays at Reduced Option Allowance | Increases to Maximum Allowance |
| Maximum  | <b>N/A</b>                        | <b>N/A</b>                     |
| Option A   |                                   | <b>X</b>                       |
| Option B   |                                   | <b>X</b>                       |
| Option C   |                                   | <b>X</b>                       |
| Option D   |                                   | <b>X</b>                       |
| Option 1   | <b>X</b>                          |                                |
| Option 2   | <b>X</b>                          |                                |
| Option 3   | <b>X</b>                          |                                |
| Option 4   | <b>X</b>                          |                                |

### **LIFE INSURANCE AFTER RETIREMENT**

Most members of the PERS and TPAF are covered by group life insurance while employed. At retirement, those members receive a reduced life insurance benefit to be paid to their beneficiary upon their death, provided that they have credit for at least 10 years of service in the retirement system.

You may want to leave a pension option benefit to your beneficiary in addition to the life insurance.

### **ADDITIONAL INFORMATION**

If you have questions about your pension options, contact the Division of Pensions & Benefits Office of Client Services at (609) 292-7524, or send e-mail to: [pensions.nj@treas.nj.gov](mailto:pensions.nj@treas.nj.gov)

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