

Deferred Retirement

Public Employees' Retirement System • Teachers' Pension and Annuity Fund • Police and Firemen's Retirement System

Deferred Retirement is available if you have at least ten years of service credit upon terminating employment but do not yet meet the “retirement age” requirement set forth by the State-administered retirement systems. You will begin receiving a retirement allowance on the first of the month after attaining “retirement age” only if a retirement application has been filed with the Division of Pensions and Benefits.

You must file an online application for retirement via the Member Benefits Online System (MBOS). To register for MBOS, visit our Web site at: www.nj.gov/treasury/pensions

You can apply for a Deferred Retirement when you terminate covered employment or any time prior to attaining the “retirement age” requirement. Under no circumstances can a Deferred Retirement become effective prior to the date the application is received by the Division of Pensions and Benefits.

PERS and TPAF members that do not file a Deferred Retirement Application before normal “retirement age” will only be permitted to file for the Maximum Option from the retirement system. 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. Upon your death, benefits end and your survivors do not receive a pension allowance.

Under the provisions of the Internal Revenue Code 409(a)(9), you are required to start receiving benefits no later than April 1st of the calendar year following the calendar year in which you attain age 70 ½. The Division will make every reasonable effort to notify you with instruction on how to either collect your retirement benefit or return your pension contributions in a lump sum. (See Required Minimum Distribution in this fact sheet).

If a member is removed from employment for cause, the member may be ineligible for Deferred Retirement.

PERS AND TPAF MEMBERS

With the passage of recent legislation the enrollment and retirement criteria has changed for PERS and TPAF members enrolled as of certain dates. These differences in PERS and TPAF membership — referred to as “**membership tiers**” are defined as follows:

- **Membership Tier 1** — Members who were enrolled *prior to* July 1, 2007.
- **Membership Tier 2** — Members who were eligible to enroll *on or after* July 1, 2007 and *prior to* November 2, 2008 — pursuant to the provisions of Chapters 92 and 103, P.L. 2007.
- **Membership Tier 3** — Members eligible to enroll *on or after* November 2, 2008 and *on or before* May 21, 2010 — pursuant to the provisions of Chapter 89, P.L. 2008.
- **Membership Tier 4** — Members eligible to enroll *after* May 21, 2010 and *before* June 28, 2011 pursuant to the provisions of Chapter 1, P.L. 2010.
- **Membership Tier 5** — Members eligible to enroll *on or after* June 28, 2011 — pursuant to the provisions of Chapter 78, P.L. 2011.

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The “retirement age” requirement for Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) members is age **60** for **Tier 1** and **Tier 2** members, age **62** for **Tier 3** and **Tier 4** members, and age **65** for **Tier 5** members. Therefore, your Deferred Retirement date is the first of the month following your 60th, 62nd, or 65th birthday depending on your membership tier. Your retirement allowance is based on the Service Retirement formulas shown below:

The formula to calculate the maximum annual pension for **Tier 1, Tier 2, and Tier 3** is:

$$\begin{array}{rclcl} \text{Years of Service} & & \text{X} & & \text{Final} & & \text{Annual} \\ 55 & & & & \text{Average} & = & \text{Retirement} \\ & & & & \text{Salary} & & \text{Allowance} \end{array}$$

The formula to calculate the maximum annual pension for **Tier 4** and **Tier 5** is:

$$\begin{array}{rclcl} \text{Years of Service} & & \text{X} & & \text{Final} & & \text{Annual} \\ 60 & & & & \text{Average} & = & \text{Retirement} \\ & & & & \text{Salary} & & \text{Allowance} \end{array}$$

'Years of Service' means the years and months of pension service credited to your account.

'Salary' means base salary on which pension contributions are taken. It does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

'Final Average Salary' for **Tier 1, Tier 2, and Tier 3** members means the average salary for the three years immediately preceding your retirement (30 months for employees with 10- month contracts). If your last three years are not your highest years of salary, your allowance will be calculated using your three highest fiscal years (July 1st - June 30th) of salary.

For **Tier 4** and **Tier 5** members, **'Final Average Salary'** means the average salary for the five years immediately preceding your retirement (50 months for employees with 10- month contracts). If your last five years are not your highest years of salary, your allowance will be calculated using your five highest fiscal years (July 1st - June 30th) of salary.

Note: If your last years of salary are not your highest years, you must indicate it on the retirement application.

PFRS MEMBERS

“Retirement age” for members of the Police and Firemen’s Retirement System (PFRS) is age 55. Therefore, if you terminate employment prior to your retirement age your retirement allowance will begin the first of the month following your 55th birthday. The retirement allowance is equal to 2% of your Final Compensation for each year of service. For example, a member who terminates employment after 11 years with a Final Compensation of \$35,000 will receive 22% of \$35,000, for an annual retirement allowance of \$7,700.

For PFRS members enrolled on or before May 21, 2010, 'Final Compensation' means the base salary on which pension contributions are taken for the 12 months immediately preceding your termination of employment. It does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

For PFRS members enrolled after May 21, 2010, 'Final Compensation' means the average of the last three years base salary or highest three fiscal years base salary on which pension contributions are based. It does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

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SURVIVOR BENEFITS

In the event of your death, between the time you terminate employment and your retirement becomes effective, the last named beneficiary will receive the return of your pension contributions. There is no other death benefit under these circumstances.

For more information about survivor's benefits once your retirement goes into effect see Fact Sheet #5, *Pension Options (PERS and TPAF members)* or Fact Sheet #19, *Applying for Retirement (PFRS members)*.

GROUP LIFE INSURANCE:

If you had group life insurance through your employer at the time you terminated employment, when your Deferred Retirement becomes effective:

- PERS members will have a paid-in-full death benefit equal to 3/16^{ths} of their salary:
- TPAF members who **did not** participate in contributory insurance will have a paid-in-full death benefit equal to 3/16ths of final salary while those who **did** participate in contributory insurance will have a paid-in-full death benefit equal to 7/16^{ths}.
- PFRS members will have a paid-in-full death benefit equal to 50% of their final salary.

Your group life insurance coverage **is not** in effect between the time you terminate employment and when your Deferred Retirement becomes effective. If you wish to convert your coverage to private policy, see Fact Sheet #13, *Conversion of Group Life Insurance*.

HEALTH BENEFITS

Members electing Deferred Retirement cannot transfer their active health care coverage to the retired group of the State Health Benefits Program (SHBP) or School Employees' Health Benefit Program (SEHBP). This does not include members of TPAF who elect to defer retirement with 25 or more years of service credit in the pension fund, or school board or county college employees with 25 or more years of service credit in PERS.

Note: You may be eligible for health benefits coverage because of federal 'COBRA' legislation, for up to 18 months if you were covered by the SHBP or SEHBP just prior to terminating employment. If your Deferred Retirement allowance begins while the 18 months of COBRA coverage is in effect, you may be eligible to join one of the retiree health benefit programs administered by the State and continue this coverage into retirement. If the 18 months of COBRA coverage ends before the retirement commences, you are not entitled to maintain health coverage through the SHBP or SEHBP at retirement.

RETURNING TO PUBLIC EMPLOYMENT IN NEW JERSEY

Most private employment will not affect your retirement benefits. If, prior to your Deferred Retirement date, you return to a position covered by the same retirement system within 24 months of terminating previous employment, you can cancel your retirement and resume contributing to your previous account in the retirement system.

If, *prior to your effective retirement date*, you return to public employment following a break in service of more than 24 months, you will be enrolled in a new account under the membership tier that is in effect at the time of reemployment regardless of any prior retirement system membership, even if you are vested in a former account.

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If you cancel your Deferred Retirement and are ready to retire or leave employment again at a later date, you must submit a new retirement online application.

OUTSTANDING LOAN BALANCES

If you have an outstanding loan balance at the time you defer your retirement, you can repay the outstanding loan balance in its entirety. However, if you are unable to repay your outstanding loan balance prior to separation from employment, you will be offered the following repayment options:

- Repay the loan in monthly installments to the Division through **personal billing**. If your retirement becomes effective and you begin receiving retirement checks prior to paying off your loan, the payment toward your outstanding loan balance will then be deducted from monthly retirement check (provided your retirement allowance has sufficient funds for the monthly payment). All loan payments should be the monthly equivalent of the amount deducted from your paycheck prior to retirement; or
- Take a **taxable distribution** on the balance of the loan. In accordance with Internal Revenue Section Code 72(p) regulations, failure to remit loan payments will result in declaring the remaining amount as a taxable distribution and subsequently may also be subject to additional IRS regulations. If your loan is deemed a taxable distribution, a 1099 will be forwarded to your address and it will be your responsibility to make a payment to the IRS to cover your tax liability. In addition, if you are under age 59½, you will be required to pay an additional ten percent tax for taking an early pension distribution. A distribution does not cancel the outstanding loan balance and interest will continue to accrue. Upon your effective retirement date, the loan payment will resume and be deducted from your retirement check.

ARREARS (PURCHASE) BALANCES

If you have an outstanding arrears (purchase) balance, and you have not had installment payments made toward that balance for two years due to inactivity in the account, the Division will cancel the remainder of the purchase and provide you with a pro rate credit for the service purchased to the date the installment payments ceased. You may also pay for the arrearage in full within 60 days of Division notice. If the cancellation of this purchase brings your total service credit under 10 years, you will not be eligible for a Deferred Retirement.

For a member who had authorized a purchase of service credit prior to September 8, 2008 and is not being paid by the employer, the purchase shall remain outstanding but the purchase balance shall include additional regular interest beginning September 8, 2010, or on the date salary stopped, whichever is later.

WITHDRAWING YOUR CONTRIBUTIONS

At any time before your Deferred Retirement becomes effective, you may change your mind and apply for a return of your contributions instead. Once you cancel your Deferred Retirement and withdraw your contributions, all rights and privileges of membership end.

REQUIRED MINIMUM DISTRIBUTION

Under the provisions of Internal Revenue Code 409(a)(9) you are required to start receiving benefits no later than April 1st of the calendar year following the calendar year in which you attain age 70 ½. These payments may either be in the form of a monthly retirement benefit, or the return of your pension contributions in a lump sum. You must take action prior to April 1 in order to avoid the 50% excise tax applicable under the provisions of this code for failure to take distribution. Members who select to receive a retirement benefit and have

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attained age 70 ½ are only eligible to receive the Maximum Option pension benefit. This benefit payment continues for your lifetime. In the event of your death, there are no survivor benefits payable other than the return of any unused pension contributions. A delay in filing a retirement application will result in a later retirement date and no retroactive benefits will be paid.

Members also have the option to have their pension contributions returned in a lump sum. You will receive only the money you contributed and no partial withdrawal is permitted. In accordance with federal law, income tax must be withheld on certain pension distributions that produce an annual taxable income of \$200 or more, unless the taxable amount is directly rolled over into an individual retirement account or a new employer's retirement plan. If you request a return of your pension contribution in a lump sum you are waiving all rights and privileges you may have to a retirement benefit.

Members should take action by either selecting a retirement benefit or requesting a return of their pension contributions. An online Application for Retirement Allowance or Application for Withdrawal must be completed and filed with the Division via MBOS (for registration information, see page 1).

POINTS TO PONDER

- If you move after you defer your retirement, be sure to provide the Division of Pensions and Benefits with your new address.
- Members of the PERS or TPAF may change their retirement option selection and/or beneficiary(ies) up to 30 days after their retirement date.
- The beneficiaries for your retired group life insurance may be changed at any time.
- Unlike Social Security, delaying the filing of your retirement application will not increase the amount of your retirement allowance.

AVAILABLE FACT SHEETS

The Fact Sheets mentioned in this publication can be viewed and printed from the Division's Web site at: www.nj.gov/treasury/pensions

Fact Sheet #5, *Pension Options (PERS & TPAF)*

Fact Sheet #11, *Enrolling in the State Health Benefits Program When You Retire*

Fact Sheet #13, *Conversion of Group Life Insurance*

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