

# Choosing to Elect Class T-E or Class T-F



October 2014

1

*This program is for school employees who become new members of PSERS after July 1, 2011 to assist in making the decision on whether to remain as a Class T-E member or elect to become a Class T-F member.*

# Agenda

- Your Retirement Benefit
- Comparison of Class T-E and Class T-F
- Election Process
- Contacting PSERS

October 2014

2

What we'll cover today is...

- Your Retirement Benefit
- Comparison of Class T-E and Class T-F
- Election Process
- Contacting PSERS

## DEFINED BENEFIT PLAN

- A formula is used to calculate benefits
- Contributions and investment earnings do not affect benefits
- Provides a guaranteed lifetime monthly benefit
- 401(a) plan under Internal Revenue Service Code

October 2014

3

Before we discuss the difference between Class T-E and Class T-F, first we need to ensure you understand a defined benefit and the basic retirement formula.

PSERS is a defined benefit plan. This means your retirement benefits are determined by a formula which we will address shortly. Unlike defined contribution retirement plans, the amount of your future PSERS monthly benefit is not directly dependent on the amount of your contributions and investment earnings. Your PSERS benefits are set by state law and guaranteed by the Commonwealth of Pennsylvania. Once you have enough service credits you are guaranteed to receive a lifetime monthly benefit. As an additional point of information, PSERS is a qualified trust under Section 401(a) of the Internal Revenue Service Code.

# PSERS Funding

- Member Contributions
  - Based on date of hire and class of service
- Employer Contributions
  - Set by PSERS Board of Directors annually
  - Not a “Dollar for Dollar Match” as many people believe
- Investment Earnings



October 2014

4

Retirement benefits from PSERS are benefits that are paid from funds through contributions made by the members, their employers, and from earnings on investments. Member contributions are based on date of hire and class of service.

Employers' payments are made to the general fund and are set by the PSERS Board of Directors each year based on actuarial assumptions. They are not a “dollar for dollar” match to your account as many members believe.

## Defined Benefit Plan

- Things considered in retirement formula
  - Final Average Salary
  - Membership Class
    - Class T-E
    - Class T-F
  - Years of Service
  - Age



October 2014

5

Your benefit is a defined benefit. This means that although you and your employer both contribute into the system, the amount of your retirement benefits are determined by a formula that takes into consideration your final average salary, your class of service, your years of credited service, and age. If you are not eligible for normal retirement benefits, an early retirement reducing factor is also applied.

## Retirement Formula

Class T-E Membership

Final Average Salary x 2.0%  
x Years of Service

*equals*

Annual Maximum Single Life Annuity

*times*

Early Retirement Factor (*if applicable*)

October 2014

6

The formula used to calculate your retirement benefit if you remain a Class T-E member is your final average salary times two percent times your years of service. This would be your Annual Maximum Single Life Annuity. If you are not eligible for normal retirement, this amount would then be multiplied by an early retirement factor.

## Retirement Formula

Class T-F Membership

Final Average Salary x 2.5%  
x Years of Service

*equals*

Annual Maximum Single Life Annuity

*times*

Early Retirement Factor (*if applicable*)

October 2014

7

If you elect to become a Class T-F member, it is the same overall formula as Class T-E except that the multiplier used in the calculation increases to 2.5%. Consequently, the formula used to calculate your retirement benefit is your final average salary times two and a half percent times your years of service. Again, if you are not eligible for normal retirement, this amount would then be multiplied by an early retirement factor.

## Comparison of Class T-E and Class T-F



8

There are two differences between Class T-E and Class T-F. These are the member contribution rate (the percent of money your employer withholds from your pay as your contribution toward your retirement benefit) and the multiplier used to determine your retirement benefit.

## Class T-E and Class T-F

- 10 year vesting
- Normal retirement
  - Age 65 with minimum of 3 years of service
  - Attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service
- Cannot withdraw contributions and interest upon retirement

October 2014

9

Now that you know the difference, here is information on the identical aspects for Class T-E and Class T-F that may have an impact on your decision. Requirements for retirement benefits are the same for both Class T-E and Class T-F members.

When you reach vesting or normal retirement you are eligible for a retirement benefit. When you attain ten years of credited service with PSERS and if you are under age 65, your retirement account becomes vested. When you terminate your employment, you now are eligible for a reduced monthly benefit for the rest of your life.

For normal retirement, you must work until age 65 and have a minimum of 3 years of service, or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service

Class T-E and Class T-F members are not eligible to withdraw their contributions and interest upon retirement.

*If you have less than ten years of service and are under age 65, you are only eligible to refund your contributions and interest.*

## Class T-E

- 2.0 % pension multiplier
- 7.5% base employee contribution rate with “shared risk” contribution levels between 7.5% and 9.5%

October 2014

10

The multiplier used in the benefit formula when you retire for Class T-E members is two percent.

The employee contribution base rate while an active member is 7.5%. However, this rate may increase up to 9.5% due to the “shared risk” provision.

## Class T-F

- 2.5 % pension multiplier
- 10.3% base employee contribution rate with “shared risk” contribution levels between 10.3% and 12.3%

October 2014

11

The multiplier used in the benefit formula when you retire for Class T-F members is two and a half percent.

The employee contribution base rate while an active member is 10.3%. However, this rate may increase up to 12.3% due to the “shared risk” provision.

## Shared Risk

- Class T-E
  - Base rate: 7.5%
  - Maximum rate: 9.5%
- Class T-F
  - Base rate: 10.3%
  - Maximum rate: 12.3%

October 2014

12

With a “shared risk” program Class T-E and T-F members benefit when investments of the fund are doing well and share some of the risk when investments underperform.

The member contribution rate will stay within the specified range allotted for Class T-E or T-F. The rate could increase or decrease by .5% every three years starting July 1, 2015, dependent on investment performance of PSERS.

PSERS’ Board has already determined that the rate will not be changing in 2015; therefore, the next time it could increase by .5% is as of July 1, 2018.

If the rate would change, it would change by the same .5% rate, regardless of whether you are a Class T-E or a Class T-F member.

The member contribution rate could never go below the base rate of 7.5% for T-E and 10.3% for T-F members, nor above 9.5% for T-E and 12.3% for T-F members.

## Class T-E/Class T-F Comparison

	Class T-E	Class T-F
<b>Total Member Contributions</b>	\$50,000 x 7.50% x 35 years = \$131,250 (or \$144 withheld from each biweekly pay)	\$50,000 x 10.30% x 35 years = \$180,250 (or \$198 withheld from each biweekly pay)
<b>Annual Retirement Benefit</b>	2% x 35 Years x \$50,000 = \$35,000 (paid as monthly benefit of \$2,916)	2.5% x 35 Years x \$50,000 = \$43,750 (paid as monthly benefit of \$3,645)
	In this case, the member contributed \$131,250 over the course of his service toward a maximum annual benefit of \$35,000 to be paid for his lifetime.	In this case, the member contributed \$180,250 over the course of his service toward a maximum annual benefit of \$43,750 to be paid for his lifetime.

\*This example is based on a member who achieves normal retirement with 35 years of credited service and retires at age 57 (a combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service) with a Final Average Salary of \$50,000. **It also assumes a fixed salary over the member's career.**

October 2014

13

Here is an example to assist you in your decision to remain a Class T-E member or elect to become a Class T-F member.

This example is based on a member who achieves normal retirement with 35 years of credited service and retires at age 57 (a combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service) with a Final Average Salary of \$50,000.\*

The Annual Retirement Benefit figures represent a benefit for the Maximum Single Life Annuity.

\*To make this easier to understand, this example assumes a fixed salary over the member's entire career.

## Class T-E/Class T-F Comparison

	Class T-E	Class T-F
<b>Total Member Contributions</b>	Starting salary of \$35,000 with a 3% increase each year for a final <u>year</u> salary of \$95,616  x 7.50% x 35 years = \$158,712  (or \$101 initially and \$275 in the final year withheld from each biweekly pay)	Starting salary of \$35,000 with a 3% increase each year for a final <u>year</u> salary of \$95,616  x 10.30% x 35 years = \$217,965  (or \$138 initially and \$378 in the final year withheld from each biweekly pay)
<b>Annual Retirement Benefit</b>	2% x 35 Years x \$92,831 (final <u>average</u> salary) = \$64,981 (paid as monthly benefit of \$5,415)	2.5% x 35 Years x \$92,831 (final <u>average</u> salary) = \$81,227 (paid as monthly benefit of \$6,768)
	In this case, the member contributed \$158,712 over the course of his service toward a maximum annual benefit of \$64,981 to be paid for his lifetime.	In this case, the member contributed \$217,965 over the course of his service toward a maximum annual benefit of \$81,227 to be paid for his lifetime.

\*This example is based on a member who achieves normal retirement with 35 years of credited service and retires at age 57 (a combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service). The starting salary was \$35,000 with a 3% annual increase to a final year's salary of \$95,616. The Final Average Salary is the average of the three highest year's so a final average salary of \$92,831. October 2014

14

Here is another example to assist you in your decision that is more complex to follow, but also more realistic because instead of a fixed salary for the member's entire career, it assumes annual increases every year.

This example is based on a member who achieves normal retirement with 35 years of credited service and retires at age 57 (a combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service) with a Final Average Salary of \$92,831. The starting salary was \$35,000 with a 3% annual increase to a final year's salary of \$95,616. The Final Average Salary is the average compensation of the three highest school year's giving the member a Final Average Salary of \$92,831.

The Annual Retirement Benefit figures represent a benefit for the Maximum Single Life Annuity.

## Election Process

- All members automatically enrolled as Class T-E
  - No action required to remain Class T-E
- You must elect to become Class T-F
  - Your *T-F Membership Class Election* form must be received by PSERS by the deadline provided
- Your decision is final and binding

October 2014

15

All new members will automatically become Class T-E members. **No action is required by you if you elect to remain a Class T-E member.**

New members however, will have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS. Failure to elect Class T-F at time of original eligibility will make you ineligible for Class T-F forever. In other words, once the election is made either by action or inaction, your election is permanent.

The form to elect Class T-F membership must actually be received by PSERS headquarters or at one of PSERS' regional offices on or before the due date if you wish to elect Class T-F membership. A postmark on the envelope will not determine the filing date of your Class T-F election form. To ensure delivery you may want to consider a mailing method which provides proof of mailing, or you may also hand deliver your Class T-F election form to PSERS headquarters in Harrisburg or at one of PSERS' regional offices. You may also fax the form to PSERS. If this form is received by PSERS after the deadline, it will not be effective and you will permanently remain as a Class T-E member.

To summarize, the bottom line difference between Class T-E and Class T-F is that Class T-E members contribute less during their working career and consequently

will receive a lower retirement benefit. Conversely, Class T-F members will contribute more during their working career and consequently will receive a higher retirement benefit.

**Remember, your decision to remain Class T-E by doing nothing, or to elect Class T-F by filing the election form by the deadline, is final and binding.**

Regardless of your decision, PSERS will be here to serve you in your active career and in retirement.

# Contacting PSERS

## **TOLL-FREE TELEPHONE SERVICE**

General: 1-888-773-7748

Hours: 7:30 a.m. – 5:00 p.m. (Monday-Friday)

**Fax: 717-772-3860 or 717-783-7275**

**WEBSITE:** [www.psers.state.pa.us](http://www.psers.state.pa.us)

**E-MAIL:** [contactPSERS@state.pa.us](mailto:contactPSERS@state.pa.us)

## **MAIL**

PSERS

5 N. 5<sup>th</sup> St.

Harrisburg, PA 17101

October 2014

16

Remember, contact us at PSERS any time you have a concern or question regarding your retirement account.