Have Any Questions About New Retirement Law? Here Are Some Answers

Editor's Note: Some major changes in Oregon's Public Employees Retirement System were made on January 1, 1968. That is the date a law passed by the 1967 Legislature (HB 1264) overhauling the system became effective. To help association members become familiar with these changes, the **NEWS** asked several persons to submit the most frequently asked questions about the new retirement system. Howard Walp, director of OSEA's Retirement Committee, Jerry Liebertz, former director, and OSEA staff members provided the answers. Due to space limitations, not all of the questions could be answered. If you have a specific question about the new system, please contact the Public Employees Retirement System, 669 State Office Building, Portland, 97201, telephone: 226-2161.

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Question: What is the schedule of the new contribution rates that went into effect January 1st?

Answer: The new contribution rates are based on the gross salary earned each month, and **all** employees will contribute on **all** salary. For salary up to $499.99 per month, the rate will be four per cent; from $500 to $999.99 per month, five per cent; from $1,000 to $1,499.99 per month, six per cent; and on salary of $1,500 per month or more, seven per cent. Please remember that the rate could vary from month to month. For instance, an employee earning $480 per month would normally contribute four per cent. If, however, that employee were to be paid $20 overtime his gross salary for the month would be $500. For that month, his contribution rate would be five per cent.

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Question: Can I contribute on less than my full salary?

Answer: No. The decision to remove all contribution options was unanimously adopted by the Ways and Means Committee early in the 1967 legislative session as a change to be made in PERS.

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Question: Will I contribute more under the new law?

Answer: That depends upon what you elected to do under the old law and your age when you entered the system. A female who was contributing at the maximum rate will probably pay less unless she was very young at the time she entered the system. A male on maximum contribution will probably notice little change. An employee, male or female, who elected the minimum contribution under the old system will probably pay quite a bit more.

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Question: Is it true that I might have less take home pay if I get a pay raise that puts me in a higher contribution rate?

Answer: Not under the present civil service pay scale. If, however, you are a new employee, your first pay increase will coincide with your first retirement contribution and you could end up with a net reduction in your check. For example, if you were hired at $500 a month, you should receive a $25 increase after six full months of employment. Your contribution rate would be five percent, and five per cent of $525 is $26.25, so your net pay would be reduced $1.25. Since your federal, state and social security taxes would also increase, your net paycheck would be further reduced.

Question: I've heard the words pension and annuity. Just what is the difference?

Answer: Under the new law, the **pension** is the formula benefit guaranteed by your employer. The **annuity** is the benefit you purchase for yourself with your contributions.

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Question: What is the difference between a fixed annuity and a variable annuity?

Answer: An annuity is a monthly benefit payable for life. Benefits paid under a fixed annuity are set at the time you retire and do not change. (Benefits paid currently by PERS are fixed.) Benefits paid under a variable annuity are usually purchased by investments in common stock and will vary from year to year depending upon the market experience of that stock.

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Question: When must I make the decision to place part of my contributions in a variable annuity account?

Answer: You may make this election anytime during the year. The funds, however, will not be placed into a variable annuity account until the following January.

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Question: If I elect to place part of my contribution in the variable annuity program, am I bound forever to that decision?

Answer: Yes. If you desire to place a percentage of your **accumulated contributions** in a variable annuity account, you must first make the election to have a percentage of your **future contributions** placed in the variable annuity account. Once done, this decision is irrevocable. You must have the percentage of your future contributions that you select to be placed in the variable annuity continue throughout your membership in PERS.

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Question: What portion of my contributions may I invest in a variable annuity account?

Answer: You may elect to have either 25 per cent or 50 per cent of your **future** contributions placed in a variable annuity account. If you make this election, you may also elect to have 50 per cent of the sum of your **account balance,** as of Dec. 31, 1967, placed in the variable annuity. This will be accomplished by transferring 10 per cent of your account balance each year for a period of five years to your variable annuity account.

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Question: What happens to my money if I leave state service?

Answer: You have two options. (1) You can take a refund of your contributions if you are under age 60 (age 55 for police and firemen) plus the interest your account has earned. If you do this you lose all of the employer benefits. (2) You can leave your money intact. If you have over five years membership in PERS your account will continue to draw interest until you withdraw it or ask for it in the form of a retirement annuity. If you take it in the form of an annuity you will also qualify for the state pension based on your salary at the time you were employed.

Question: Can I elect not to participate in PERS?

Answer: No. You cannot participate in the retirement system during your initial six months of employment. When you have worked six full months, however, it is mandatory that you become a member of PERS and contribute to the system at one of the rates listed elsewhere on this page.

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Question: Have any changes been made in prior service credit?

Answer: No. Rules governing prior service credit and the $4.00 credit for each year of prior service (prior to July 1, 1946) and the 20 years maximum are not changed by the new law.

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Question: In computing the number of years of service in the formula, can I count all of the years I've been employed?

Answer: No. You may count only those years after July 1, 1946. Service before that date will receive prior service credit at $4.00 per month per year employed.

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Question: How do I determine my final average salary.

Answer: To arrive at final average salary, the following number of years and the salary earned during those years are used: (1) Highest five years salary of the last ten years prior to age 65; (2) If employed more than five years but less than ten years, the five highest years salary would then be used; (3) If employed and a member of the system for less than five years, all of the years would be used.

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Question: Is my money matched by the state under the new law?

Answer: The new formula pension more than matches your contribution. The new law bases the employer benefit on highest salary and years of membership and is in no way based on your contributions. The only members of PERS who will continue on the dollar for dollar match are the academic employees in Higher Education who chose TIAA-CREF as a supplement to PERS.

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Question: Have there been any changes in the PERS disability program?

Answer: Yes, some important ones. For instance, the maximum age for receiving a disability benefit has been extended from age 60 to age 65. To be eligible, an employee has to be found (by one or more physicians) to be mentally or physically incapacitated for an extended duration. The new law adds to this . . . "and thereby unable to perform **any work for which he is qualified . .** ".

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Question: What effect will the increased retirement contribution rates have on my social security contributions?

Answer: None. The state PERS is completely separate from the federal social security plan. A social security tax of 4.4 per cent of the first $7,800 of salary will continue to be withheld from your paycheck.

Question: As an academic employee, I am contributing to TIAA-CREF. Will I automatically come under the new retirement system?

Answer: No. You have **60 days** after the law becomes effective January 1st to decide whether or not to participate in PERS or remain in TIAA-CREF. You cannot participate in both systems.

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Question: If I remain in TIAA-CREF, can I decide to participate in PERS at a later date?

Answer: No. As pointed out in the answer above, academic employees participating in TIAA-CREF have only 60 days to choose between the systems. Once this time limit has elapsed, you cannot change systems.

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Question: Can I still voluntarily retire at age 60?

Answer: Yes, but you will take quite a cut in your retirement benefit. PERS says you can figure about seven per cent per year reduction for every year prior to age 65. The "compulsory" retirement age will continue to be age 65—with "absolute" retirement at age 70.

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Question: I have several questions. Can I work after age 65? If so, can I participate in PERS? If I can, will this increase my retirement benefit?

Answer: The general rules governing the procedures for requesting retention beyond age 65 remain unchanged, including the rights of the employer in granting or refusing the employee's request. If you are retained after age 65, not only can you participate in PERS, the new law makes it mandatory for you to continue to contribute on the same basis as before age 65. Your retirement benefit will be increased **only** to the extent of the greater annuity purchased by your contributions made after age 65. Any years worked after the "compulsory" retirement age of 65 **may not be used** in computing the formula (employer portion) pension. Salary earned after age 65 may not be used in determining final average salary.

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Question: I understand there are several options available upon retirement. Could you list them?

Answer: Yes, but only briefly. There are four:

Option 1: The non-refund annuity. Under this option, the employee elects to receive the largest possible retirement allowance payable throughout his life with the understanding that after his death all payments cease and the balance, if any, remaining in his account **will not** be paid to the beneficiary.

Option 2: The refund annuity. Under this option, the employee elects to receive a lesser retirement allowance with the provision that his accumulated contributions less the sum of the annuity payments received, *shall be paid upon his death to the beneficiary.*

Option 3: The joint survivorship option with equal benefits paid to the beneficiary.

Option 4: The joint survivorship option with one-half benefit paid to the beneficiary.

Major Changes Made In Retirement System; Here's a Chance to Compute Your Benefits Under New Law

Editor's Note: Two fundamental changes in the PERS which were made by the new law are: (1) the employer portion of the retirement benefit was changed from a "money purchase" system to a guaranteed pension computed by a formula (an employee retiring after 30 years of service is now guaranteed a retirement benefit of 20 per cent of his final average salary), and (2) an increase in employee contribution rates. In an effort to help OSEA members compute their retirement benefits under the new law, Jerry Liebertz, former director of the OSEA Retirement Committee, prepared the following special material for the **NEWS.** It originally appeared in the July, 1967 issue.

Shown below are the retirement benefits of what two hypothetical employees would receive under the new law. The example on the left is a male employee who will retire in 1978 after having worked for the state 27½ years. The example on the right is a female employee who will retire in 1969 after 17½ years service. Salary earned by the two employees during their last ten years of employment is also shown. Please note that we have assumed the male will have an account balance of $5,000 upon retirement, and the female a $3,000 account balance.

MALE

Pension: 27 x .0067 x $600 = $108.54
Annuity: $5,000 x .00782 = 39.10
Total $147.64

FEMALE

Pension: 17 x .0067 x $350 = $39.86
Annuity: $3,000 x .00628 = 18.84
Total $58.70

MALE

Salary:	1969	$5,100	1974	$6,900*
	1970	$5,400	1975	$6,900*
	1971	$5,700	1976	$7,200*
	1972	$6,000	1977	$7,500*
	1973	$6,300	1978	$7,500*

*** Years used to compute final average salary of $600 per month.**

FEMALE

Salary:	1960	$2,700	1965	$3,400
	1961	$2,700	1966	$4,200*
	1962	$3,100	1967	$4,200*
	1963	$3,400	1968	$4,200*
	1964	$4,000*	1969	$4,400*

*** Years used to compute final average salary of $350 per month.**

These examples represent the mechanics of computing the monthly retirement benefit each employee will receive upon retirement. Social Security benefits will be in addition to retirement benefits paid by PERS.

As of January 1, 1968, a 65-year-old male will receive $7.82 for every $1,000 of account balance, and a 65-year-old female will receive $6.28 per $1,000 on her annuity. The reason the female receives a lesser amount is due to the fact that the life expectancy of the female at age 65 is approximately three years greater than that of the male.

If an employee retires earlier than age 65, there would be an approximate discount of seven per cent for each year prior to age 65. Under this plan the the earliest retirement age is 60.

(a) Insert the number of years of membership in the PERS. If you were employed before July 1, 1946 begin counting years of membership from that date. Time for employment prior to July 1, 1946 is considered prior service and should not be used in this portion of the calculation. Do not count years of service after 65th birthday. Remember, if you took a refund of your money you lose credit for service prior to that time. Also remember you must work six months before establishing membership in the system. If you are a policeman or fireman, the number of years cannot exceed 25. For all other employees the number of years cannot exceed 30.

(b) Insert .0067. If you are a policeman or fireman use the figure .0092.

(c) Insert your final average salary. This figure is computed by adding the five highest years of salary in the last ten years of employment prior to age 65, and dividing by 60.

(d) Insert the result of multiplying (a) x (b) x (c). This figure is the guaranteed monthly pension from the state.

(e) Insert your account balance at retirement age. If you do not know your account balance, you may either estimate it or obtain it from the Retirement Board.

(f) Insert .00782 if you are a male, or .00628 if you are a female.

(g) Insert the result of multiplying (e) x (f). This figure is the monthly annuity purchased with your contributions.

(h) Insert the number of years or prior service credit (number of years employed prior to July 1, 1946).

(i) Each employee receives $4.00 per month for each year of prior service credit.

(j) Insert the result of multiplying (h) x (i). This figure is the monthly benefit for prior service credit.

(k) Insert the sum of adding (d) plus (g) plus (j). This figure is the monthly retirement benefit. Remember, Social Security benefits will be in addition to the PERS benefits.

NOTE: The above benefit is calculated under Option No. 1 (the non-refund annuity). Employees should be aware that PERS offers three other retirement alternatives: Option No. 2 (joint survivorship with equal benefit paid to beneficiary); Option No. 3 (joint survivorship with one half benefit paid to beneficiary); and Option No. 4 (refund annuity). The amount of the retirement benefit is dependent upon the option selected by the employee.

Any questions you may have about the retirement system or the benefits you will receive should be directed to Public Employees Retirement System, 669 State Office Building, Portland, 97201. Telephone 226-2161, Ext. 596.

New PERS Employee Contribution Rates Effective January 1, 1968

Monthly Salary	Contribution Rate
Up to $500	4%
$501 to $1,000	5%
$1,001 to $1,500	6%
Above $1,501	7%

_____ (a) x _____ (b) x $_____ (c) = $_____ (d)

$_____ (e) x _____ (f) = $_____ (g)

_____ (h) x $4.00 (i) = $_____ (j)

$_____ (k)

Formula Used to Compute State Portion of Retirement Benefit

.0067 x *NYS x **FAS = Retirement Benefit

***Numbers of years service. Count only those years since 1946. Prior to 1946, employee will receive $4 per month per year of service.**

****Final average salary. Defined as the five highest years salary of the last ten years of employment prior to retirement age of 65.**