

## Executive Director Update April 1, 2014

### Retirement Planner

If you are at the point in your educational career that you may consider retiring July 1, 2014, this executive director update is intended to assist you as you review all the details that you need to consider. It also attempts to answer several questions that you may have. If you are an ATRS employer, this update is intended to give additional information to assist you in helping your employees as retirement season approaches. On behalf of the ATRS Board, I want to thank all 2014 retirees for your service to education in Arkansas and wish you the best in retirement. Just as when you were an active member, ATRS will be here to serve you.

Attached is an 13 page question and answer format update on things to consider and do if you are certain about or considering retiring at the end of this school year (July 1, 2014) as well as a memorandum to employers participating in ATRS that outlines the requirements for retirement and T-DROP eligibility. ATRS decided to share the memorandum to employers with everyone to give more information to members. The ATRS Board has stressed that descriptive and timely information to ATRS members and employers is an important ATRS Board priority. The ATRS Board remains committed to increasing information and services available to members. ATRS staff is pleased to carry out this important ATRS Board objective.

This update addresses some of the most important things to do and consider as you plan your retirement in 2014. Many of the questions and answers were included at the request of the ATRS Benefits and Counseling staff. Most of the questions are those that the B & C staff felt were either the most important or most commonly asked questions by members considering retirement. The intent of all this information is to help clarify the steps to a smooth retirement with directions on tailoring your benefits to fit your particular needs. Hopefully the result includes answers to many of the questions that a potential retiree has considered or should be considering in an easier to read format. I have also included T-DROP FAQ's for those tenured members (28 – 30 or more years of service credit) who may not quite be ready to retire but are looking for an option to "build a savings account" toward their future retirement.

Many ATRS members are contemplating whether July 1, 2014, should be their official retirement date, or if a future retirement date would be in their best interest. It is time to pause, reflect, and understand that ATRS today is as fundamentally strong as any public pension plan in the nation. ATRS is now worth over **\$14 Billion dollars** and has an estimated **13%** return for the current fiscal year with one quarter left to go. Your retirement decisions should be based on what is best for you and your family. ATRS will try to give you several things to consider and a lot of retirement facts and information. This update may be a good one to copy and keep handy for future reference.

## **Retirees**

Important to note, the cost of living adjustment (COLA) remains unchanged at 3% on the base benefit for all retirees who have been retired for 12 months on July 1, 2014. Unlike what has happened in state after state, ATRS retirees have seen no reduction in their COLA. All ATRS retirees can still boast that the COLA maintains and often grows a retiree's buying power. A retiree who retired in 1980 has **167%** of the member's original buying power, for 1990 it is **151%** and for a 2000 retiree it is **107%**. Arkansas has stood tall for its ATRS retirees! If you read the newspapers and internet, you will see that state after state has reduced or suspended COLAs for retirees, if they ever had a COLA to begin with.

## **T-DROP Participants**

ATRS has a 10-year T-DROP program, a post 10-year T-DROP program, and the Cash Balance Account (CBA) for members retiring from T-DROP that has guaranteed interest rates for life that go as high as 4%. ATRS pays between 2% and 6% interest on T-DROP balances during the 10-year accrual period, and between 4% and 6% on post 10-year T-DROP balances each fiscal year, depending upon investment returns.

## **Survivor Benefits**

ATRS has the best survivor benefit that you will find in the whole country. The protection of the survivor program for active members who die in service is there for members with 5 years of ATRS service. Minor children of deceased active members and T-DROP participants get 20% EACH (up to 60% of salary) of the member's best one year salary up to age 23 if the children continue consecutively as full-time students at an accredited secondary school, college, or university.

## **Disability Retirement**

ATRS has an excellent disability program that leans heavily toward assisting our members. Unlike many retirement systems, the ATRS disability program does **not** require a member to qualify for Social Security disability before being approved for ATRS disability retirement benefits. ATRS uses a medical committee geared to serving school employees to promote the delivery of the educational curriculum in the public

schools. In order to qualify for ATRS disability benefits, an active member is required to have at least 5 years of actual ATRS service credit.

### **Strong Returns**

As of April 1, 2014, the overall investment returns of ATRS are estimated to be 13%. The ATRS trust fund is now worth over \$14 billion dollars. If these returns hold firm or increase, then ATRS is well positioned to slowly and steadily use investment returns and cost saving programs from previous legislative sessions to bring ATRS back to the unsmoothed 30-year amortization schedule that has been the goal of the ATRS Board. ATRS will be very close if the markets hold up for the next quarter.

### **Pause and Reflect**

If you are considering retiring but are not 100% sure, you should think closely and carefully before making a final retirement decision. The ATRS Board is focused upon preserving all benefits and annuity structure. Retiring earlier than you otherwise should have can take income from you and your family for the rest of your life. If you are eligible to retire, the decision to retire is yours to make; however, be sure you have carefully considered your options and chosen the right time to retire. Always feel free to call ATRS staff to help you consider all your ATRS options.

### **T-DROP Participation: Know the Facts**

Many of you may not be ready to retire but may be ready to enter into the T-DROP program. Look carefully at your personal situation before you follow the trend of entering the T-DROP program when you first reach 28 years of service. ATRS staff can provide estimates for you at 28, 29, 30 or more years of service credit. You should carefully consider future raises or possible promotions before locking in your retirement benefit to enter the T-DROP program. Once you enter, the decision is permanent. Entering T-DROP with 28 year of service is not the right decision for all ATRS members!

Remember, there is a **6% penalty** for each year that a member enters T -DROP before reaching 30 years of service credit. Therefore, a member with 28 years of service credit will receive 72% of their regular monthly benefit plus an additional 12% early penalty applied to the reduced amount for a total T-DROP deposit of approximately 60% of what

the member's monthly retirement benefit would be. With 30 years of service, the reduction is only 30%, not the 40% reduction that applies at 28 years of service.

Before you enter T-DROP, you should carefully consider whether it is the best decision for you to enter with 28, 29, or 30 years of service credit or even thereafter. The T-DROP plan is a 10-year plan with monthly deposits and thereafter pays interest only on the account balance. Be sure to consider your life plan and your work life intentions before entering into T-DROP too early. If you are about to have a materially higher salary after entering T-DROP, then T-DROP could be a big mistake for you. Call ATRS if you have questions. Also feel free to call me directly! I have also attached a T-DROP primer for you to review.

### **Ready to Retire and You're Sure**

If you are sure it is time to retire, I have attached a summary of things to consider as you begin the retirement process. It is best to retire on July 1<sup>st</sup> rather than August 1<sup>st</sup>. Retiring on July 1<sup>st</sup> ensures you will receive the 3% Cost of Living Adjustment (COLA) the following July 1<sup>st</sup>. If you retire August 1<sup>st</sup>, you will wait 23 months to get your first COLA raise. You have to be retired a full fiscal year to get the first COLA and it becomes automatic after that on each July 1<sup>st</sup>. ATRS must receive your retirement application, or have it post marked from the U.S. Postal Service, by May 31<sup>st</sup> or before in order for you to become a July 1<sup>st</sup> retiree. Reduce your stress level and get your retirement application submitted early. You can always cancel your retirement application if you change your mind, up to 2 months after the effective date of benefits.

Many members will have questions about benefit options to cover a spouse and the impact of those options on the monthly benefit. For instance, a member may choose Straight Life Annuity to get the maximum monthly benefit or may take a reduction and protect a spouse or incapacitated child in the event of the retiree's untimely death. Some members will need to gather records such as birth certificates, Social Security cards, marriage licenses, and similar documents.

ATRS staff is here to assist you by mailing benefit estimates, answering your questions by telephone, and in person by visits to our office. The ATRS office is open to our members for meetings with counselors Monday through Friday from 8:00 a.m. until 4:30 p.m. Walk-ins are welcome but appointments are preferred to better assist you. Always feel comfortable to contact ATRS to assist you in this life changing process.

## **Remember the Termination Separation Period**

If it is really time for you to retire and after reviewing all information, then you will either be retiring from active service or retiring from T-DROP participation. For any member retiring who is **not** 65 years of age on the effective date of retirement, there is a **termination separation period**. **PLEASE, PLEASE, PLEASE** be sure if you retire that you know the length of your termination separation period and you understand that you cannot work **at all** for an ATRS employer during your termination separation period. The separation period ALWAYS begins on the 1<sup>st</sup> day of the month of your retirement effective date and is NOT from the last day that you worked. Most members retire on July 1<sup>st</sup> so most members cannot return back to work for an ATRS employer until January 1<sup>st</sup> of the next year which in this case is January 1, 2015.

If you have any questions on this topic, then please **ask first** before you attempt to return to work for an ATRS employer. The results of a mistake here are very costly for retirees. ATRS seeks to avoid any violations by working closely with members and ATRS employers. You should carefully read the portion on the termination separation period in your retirement application and related correspondence.

### **A 6 month Separation Period Is Required for Most Members**

For members who are not 65 years of age on the effective date of retirement and have less than 38 years of recognized service credit by ATRS, you have a six month separation. If you are a July 1<sup>st</sup> retiree, you cannot return to work until January 1, 2015.

### **A 1 Month Separation for Members with 38 or More Years of Service**

If you have 38 or more years of recognized service credit by ATRS, you have a one month separation period from your effective retirement date. For instance, if you are a July 1<sup>st</sup> retiree, you must wait until August 1<sup>st</sup> to return to work.

### **No Separation Required if the Member is Age 65 or Older on the Retirement Date**

Once a member has reached age 65 and retires afterwards, no separation whatsoever is required. I have also attached a primer on basic active membership retirement for you to use and review. Always remember, you can call me and ask questions and receive written response to a number of questions that might arise as you consider

continuing to work, entering T-DROP, retiring, or returning to work after retirement. ATRS is here to serve you.