

MEMORANDUM

TO: Designated Agents

FROM: Judy Lambert

DATE: April 11, 2001

RE: (1) Partial Lump-Sum Option (PLSO) Update
(2) Estimating the Partial Lump-Sum Option (PLSO) Payment
(3) Calculating an Estimate of the Partial Lump-Sum Option (PLSO)
(4) Examples
(5) New KPERS-15, Application for Retirement Benefit

(1) Partial Lump-Sum Option (PLSO) Update

Effective with July 1, 2001, retirement dates, members who are willing to take a lifetime reduction in their retirement benefit will be able to choose to receive part of their retirement benefit in a partial lump-sum option (PLSO) up front rather than receiving all of their retirement benefits in monthly payments. If a member chooses a PLSO, their monthly benefit will be reduced for the rest of their life, as will benefits to any joint survivors or beneficiaries.

(2) Estimating the Partial Lump-Sum Option (PLSO) Payment

How is the amount of the PLSO calculated? It is based on the actuarial present value of the member's monthly benefit. The total amount will vary from person to person, depending on each member's age at retirement and monthly retirement benefit.

What is "actuarial present value?" There may be some confusion over the meaning of this term. So first, let's describe what it is not. It is not the sum of all contributions made on a member's behalf over the years, plus interest. Nor is it the total of their expected future monthly benefits.

The determination of the "actuarial present value" requires the use of assumptions as to future investment earnings and mortality rates (since monthly benefit payments are paid out over the member's lifetime). The Board of Trustees has adopted the actuarial assumptions as recommended by our consulting actuary.

Conversion Table	
Age/Factor	
50	136
51	135
52	134
53	132
54	131
55	129
56	128
57	126
58	124
59	123
60	121
61	119
62	117
63	114
64	112
65	110
66	107
67	105
68	102
69	100
70	97
71	94
72	92
73	89
74	86
75	83

(3) Calculating an Estimate of the Partial Lump-Sum Option (PLSO)

In order to estimate a member's PLSO, you must first estimate the monthly retirement benefit before reduction for any joint survivor or life certain option. If the member is not eligible for unreduced benefits* then the early monthly benefit should be used as the starting point.

(*Normal retirement for KPERS/Judges is: age 65, age 62 with 10 years of service, or any age when the age and service equal a total of 85 points.

Normal retirement for KP&F is: Tier I - age 55 with 20 years of service; Tier II - age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 15 years of service.)

The monthly retirement benefit amount is then multiplied by a conversion factor based on the member's age as of their next birthday following the selected retirement date to arrive at the "actuarial present value." Reminder: The maximum PLSO allowable is 50% of the "actuarial present value."

When KPERS does the actual calculation, the conversion factor will be based on the member's attained age (years and months) at retirement. The PLSO estimate calculator on our website also uses the member's attained age at retirement.

The following examples show how the PLSO is calculated and the resulting monthly benefit. Remember that the reduced monthly benefits will be further reduced if the member selects a joint and survivor option or a life certain option to provide benefits to someone else after the member's death.

(4) Examples

Example #1-KPERS

Member's Age at Retirement: 62

Years of Participating Service: 10

Final Average Salary: \$15,000

1. Using the example provided, multiply the member's final average salary by 1.75%.	15000 x 1.75% 262.50
2. Then, multiply the answer from line 1 by the member's years of service (provided in the example). This becomes the member's total annual benefit.	262.50 x 10 2625.00
3. Next, divide the answer from line 2 (the total annual benefit) by 12. This total becomes your estimated maximum monthly benefit.	2625.00 ÷ 12 218.75
4. The example indicates the member's retirement age is 62. Refer to the conversion table above. The factor adjacent to age 62 is 117. Multiply the answer from line 3 with this factor.	218.75 x 117 25593.75
5. The member's present actuarial value is:	\$25,593.75

Example #1	
Reduced Monthly Benefit (Multiply % by line 3)	Partial Lump Sum Benefit (Multiply % by line 5)
.5 (50%) \$109.38	.5 (50%) \$12,796.88
.6 (60%) \$131.25	.4 (40%) \$10,237.50
.7 (70%) \$153.13	.3 (30%) \$7,678.13
.8 (80%) \$175.00	.2 (20%) \$5,118.75
.9 (90%) \$196.88	.1 (10%) \$2559.38

Example #2 - KP&F

Member's Age at Retirement: 55
 Years of Participating Service: 30
 Final Average Salary: \$25,000

1. Using the example provided, multiply the member's final average salary by 2.5%.
$$\begin{array}{r} 25000 \\ \times 2.5\% \\ \hline 625.00 \end{array}$$
2. Then, multiply the answer from line 1 by the member's years of service (provided in the example). This becomes the member's total annual benefit.
$$\begin{array}{r} 625.00 \\ \times 30 \\ \hline 18750.00 \end{array}$$
3. Next, divide the answer from line 2 (the total annual benefit) by 12. This total becomes your estimated maximum monthly benefit.
$$\begin{array}{r} 18750.00 \\ \div 12 \\ \hline 1562.50 \end{array}$$
4. The example indicates the member's retirement age is 55. Refer to the conversion table above. The factor adjacent to age 55 is 129. Multiply the answer from line 3 with this factor.
$$\begin{array}{r} 1562.50 \\ \times 129 \\ \hline 201562.50 \end{array}$$
5. The member's present actuarial value is: \$201,562.50
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Example #2 - KP&F	
Reduced Monthly Benefit (Multiply % by line 3)	Partial Lump Sum Benefit (Multiply % by line 5)
.5 (50%) \$781.25	.5 (50%) \$100,781.25
.6 (60%) \$937.50	.4 (40%) \$80,625.00
.7 (70%) \$1093.75	.3 (30%) \$60,468.75
.8 (80%) \$1250.00	.2 (20%) \$40,312.50
.9 (90%) \$1406.25	.1 (10%) \$20,156.25

Example #3 – KPERS Early Retirement

Member's Age at Retirement: 55
 Years of Participating Service: 10
 Final Average Salary: \$15,000

1. Using the example provided, multiply the member's final average salary by 1.75%.
$$\begin{array}{r} 15000 \\ \times 1.75\% \\ \hline 262.50 \end{array}$$
2. Then, multiply the answer from line 1 by the member's years of service (provided in the example). This becomes the member's total annual benefit.
$$\begin{array}{r} 262.50 \\ \times 10 \\ \hline 2625.00 \end{array}$$
3. Next, divide the answer from line 2 (the total annual benefit) by 12. This total becomes your estimated maximum monthly benefit.
$$\begin{array}{r} 2625.00 \\ \div 12 \\ \hline 218.75 \end{array}$$
- 3a. Multiply the answer from line 3 by the early retirement factor. (For instructions on arriving at the early retirement factor, see your membership manual.) This total becomes your estimated maximum monthly benefit.
$$\begin{array}{r} 218.75 \\ \times .592 \\ \hline 129.50 \end{array}$$
4. The example indicates the member's retirement age is 55. Refer to the conversion table above. The factor adjacent to age 55 is 129. Multiply the answer from line 3a with this factor.
$$\begin{array}{r} 129.50 \\ \times 129 \\ \hline 16705.50 \end{array}$$
5. The member's present actuarial value is: \$16,705.50
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Example #3 - Early Retirement	
Reduced Monthly Benefit (Multiply % by line 3a)	Partial Lump Sum Benefit (Multiply % by line 5)
.5 (50%) \$64.75	.5 (50%) \$8,352.75
.6 (60%) \$77.70	.4 (40%) \$6,682.20
.7 (70%) \$90.65	.3 (30%) \$5,011.65
.8 (80%) \$103.60	.2 (20%) \$3,341.10
.9 (90%) \$116.55	.1 (10%) \$1,670.55

A PLSO brochure is enclosed which may be copied and distributed. This brochure is also available at www.kpers.org and will be included in the next "Understanding Your KPERS Annual Statement of Member Account" booklet which you will receive in May. Detailed PLSO information will also appear in the next issue of the KPERS Papers.

(5) New KPERS-15, Application for Retirement Benefit

The KPERS-15, Application for Retirement Benefit has been expanded. A small supply is included and the forms are also available at www.kpers.org. The retirement packet now includes a section for electing a PLSO and for specifying the manner of payment for the PLSO; the KPERS Special Tax Notice Regarding Payment Plans; and a Rollover Acceptance form which must be completed by the Rollover Plan before we can issue the rollover payment. Another major change is that the member's and/or the spouse's signature is required in several parts of the form depending on the purpose of that part of the application.

Items for you and the member to keep in mind when completing the application:

- Part B - Retirement Benefit Option
Members need to select a retirement benefit option in Part B for payment of the monthly benefit portion of their retirement benefit regardless of their PLSO selection.

- Part C - Partial Lump-Sum Payment Option
 1. Before selecting a PLSO, each member should carefully read the Partial Lump-Sum Option brochure and the entire KPERS Special Tax Notice Regarding Payment Plans. Each member needs to fully understand not only the tax ramifications of taking a PLSO but the resulting lifetime reduction to their monthly benefits as well as the reduction to any joint annuitant or beneficiary. They should consider consulting with a qualified tax consultant or the IRS before choosing this type of payment.

If the member elects a PLSO, the member must designate in Item 1 of Part C the percentage PLSO desired. The Retirement Act provides lump sum payments of 10%, 20%, 30%, 40% or 50% of the actuarial present value of the member's maximum monthly benefit. No other choices are available.

The member and the spouse must sign in Part C if a PLSO is selected.

2. In this section, the member provides instructions to KPERS on payment of their PLSO. If this section is not completed accurately, payment will be delayed. PLSO's that are paid directly to the member rather than rolled over, will have a 20% mandatory federal withholding deduction.

If any portion of the PLSO is being rolled over to another qualified plan or an IRA, a KPERS-13/15R, Rollover Verification form, is required for each company listed. It is the *member's* responsibility to send the form to each rollover company. If KPERS does not receive the required form(s), we notify the individual who must contact their rollover company(ies). No retirement payment, monthly or lump sum, will be paid out until all forms are received. This includes birth documents, the actual application, verification of most recent compensation and Rollover Verification forms for all rollover amounts.

- Part D - 30-Day Waiting Period Statement
The member must initial and date this section.
- Part E - Certification of Marital Status and Retirement Options
The member and a notary must complete this part.
- Part F-Spousal Consent of Member's Retirement Benefit Selection
This part is completed if the member is married and has selected a life certain option, the maximum monthly benefit without option, or a PLSO. The spouse needs to sign and have their signature notarized.

The PLSO represents a new and complex benefit for KPERS members. Your assistance and service to the members is always appreciated. Your input and comments on improving procedures and forms is always welcome. If you have questions, please call the InfoLine at 1-888-275-5737.