



# Options for Tier 1 Members

TIER 1

VERSION NOVEMBER 2009

This information is intended for use by members who joined the New York City Employees' Retirement System (NYCERS) prior to July 1, 1973 (Tier 1).

## INTRODUCTION

When you prepare for retirement, you need answers to several questions:

- ▶ Do you want to provide continuing retirement income to your spouse, partner or survivor(s) after your death?
- ▶ What is the cost of continuing this income?
- ▶ What is the effect on your retirement allowance?

If you choose, you can provide continuing income to your designated beneficiary by selecting an option. By selecting an option, you accept a reduced lifetime retirement allowance in exchange for the payment of a benefit to your designated beneficiary upon your death.

The following information explains the options available to you. NYCERS cannot tell you which option, if any, you should select. Your retirement needs are unique to your situation. Representatives in NYCERS' Customer Service Center will try to answer your questions regarding options and other matters pertaining to your retirement. However, you, and only you, can make the option choice that's right for you.

If you do not select an option, you will be awarded the Maximum Retirement Allowance.

## NO OPTION (Maximum Retirement Allowance)

If you have no spouse, partner or children who depend on you for financial support, you may decide not to select an option. If you cannot afford to receive a reduced pension, you might wish to maximize your retirement income by electing to receive the Maximum Retirement Allowance. There is no reduction in benefit associated with this election.

Your retirement benefit will depend primarily on:

- ▶ the pension plan in which you are enrolled (for example: the Career Pension Plan (Plan A), the Increased-Service-Fraction-Plan (Plan B), the Transit 20-Year Plan, etc.).

- ▶ the amount of service to your credit in NYCERS
- ▶ your earnings
- ▶ your contributions
- ▶ your age

Based on these factors, NYCERS computes the Maximum Retirement Allowance.

The Maximum Retirement Allowance provides the greatest benefit payment to you while you are retired, for as long as you live. However, under the Maximum Retirement Allowance, no further payments will be made after your death.

## IN SUMMARY:

The Maximum Retirement Allowance:

1. is the largest amount that is payable to you at the time of retirement
2. is payable to you for life
3. does not permit the designation of a beneficiary
4. ceases upon your death, with no benefit payable to a beneficiary

**Note:** Under the Maximum Retirement Allowance, you may die before you receive retirement benefits equal to your Initial Retirement Allowance Reserve (Initial Reserve).

The Initial Reserve is the combination of your contributions, plus interest, and the amount the City or Participating Employer contributes to NYCERS to pay your lifetime pension benefit. For example, if your Initial Reserve is \$200,000 and you die after having received only \$50,000 in retirement benefits, \$150,000 remains unpaid. Your beneficiary or estate would have no claim on this amount.

On the other hand, if your annual Maximum Retirement Allowance is \$20,000 and you live 25 years after retirement, you will receive \$500,000 in lifetime retirement allowance payments, far in excess of the Initial Reserve.



## OPTION 1 (Return of Reserve)

Option 1 reduces your Maximum Retirement Allowance.

### Unmodified Initial Reserve

Option 1 Unmodified Initial Reserve guarantees the full amount of the Initial Reserve (determined at the time of retirement) will be paid to you in monthly payments, and upon your death, the remaining balance, if any, will be paid to your designated beneficiary(ies).

### Modified Initial Reserve

Option 1 Modified Initial Reserve is similar to Option 1 Unmodified Initial Reserve, except that the Initial Reserve is larger and the annual retirement allowance is smaller.

For both Initial Reserve Options, each monthly payment you receive will decrease the Initial Reserve by a commensurate amount.

If the death of the retiree occurs shortly after retirement, the majority of the Initial Reserve will be payable to the designated beneficiary(ies). However, if you live long enough to use up the entire Initial Reserve, nothing will be payable to your designated beneficiary(ies) upon your death.

Option reduction factors are based on the age of the member at retirement.

## IN SUMMARY:

Both Option 1 retirement allowances:

1. are reduced benefits
2. are payable to you for life
3. guarantee that an amount at least equal to the Initial Reserve established at the time of your retirement will be paid out by NYCERS
4. provide a death benefit equal to the value of the Initial Reserve less any monthly payments already received by you
5. permit you to change your beneficiary designation at any time

## OPTION 2 (100% Joint-and-Survivor)

Option 2 is intended for the retiree who wishes to ensure that after his or her death, a designated beneficiary will continue to receive a fixed annual lifetime benefit.

Option 2 reduces your Maximum Retirement Allowance, with the provision that upon your death the same reduced

retirement allowance is continued to your surviving designated beneficiary for life.

Under Option 2, the retirement allowance is paid to you no matter how long you live; payments then continue to your surviving designated beneficiary for as long as he or she lives. Because Option 2 guarantees two specific people an income for life, the life expectancies of the retiree as well as the beneficiary are taken into consideration. Therefore, under Option 2, once you designate a beneficiary and the option is in force, you cannot change your beneficiary designation. Even if your designated beneficiary dies before you, you may not designate another person. You will continue to receive the reduced lifetime allowance.

All payments cease upon the death of the retiree, if the designated beneficiary predeceases him or her.

## IN SUMMARY:

The Option 2 retirement allowance:

1. is a reduced benefit
2. is payable to you for life
3. guarantees that the same lifetime benefit is payable to your designated beneficiary, if he or she survives you
4. ceases after the death of both you and your designated beneficiary
5. does not permit you to change your beneficiary designation

## OPTION 3 (50% Joint-and-Survivor)

Option 3 is also intended for the retiree who wishes to ensure that after his or her death, a designated beneficiary will continue to receive a fixed annual lifetime benefit.

Option 3 provides a reduced Maximum Retirement Allowance, with the provision that upon your death one-half of the reduced retirement allowance is continued to your surviving designated beneficiary for life. The Option 3 reduction is not as great as the Option 2 reduction, because the surviving beneficiary receives only one-half of the retiree's allowance.

Because Option 3 guarantees two specific people an income for life, the life expectancies of the retiree as well as the beneficiary are taken into consideration. Therefore, under Option 3, once you designate a beneficiary and the option is in force, you cannot change your beneficiary designation. Even if your designated beneficiary dies before you, you may not designate another person. You will continue to receive the reduced lifetime allowance.



All payments cease upon the death of the retiree, if the designated beneficiary predeceases him or her.

#### IN SUMMARY:

The Option 3 retirement allowance:

1. is a reduced benefit
2. is payable to you for life
3. guarantees that one-half of your retirement allowance is payable to your designated beneficiary for his or her lifetime, if he or she survives you
4. ceases after the death of both you and your designated beneficiary
5. does not permit you to change your designated beneficiary

#### OPTION 4 (Lump-Sum Payment)

Option 4 allows you to set aside a specific lump-sum benefit for your designated beneficiary(ies) upon your death after retirement. Your retirement allowance will be reduced from the Maximum Retirement Allowance.

The lump-sum benefit is usually provided in units of \$1,000. For each \$1,000 to be set aside, your Maximum Retirement Allowance is reduced by an actuarially determined amount depending on your age at retirement. The greater the lump-sum amount set aside, the greater the reduction from your Maximum Retirement Allowance.

Your reduced retirement allowance under Option 4 is determined by subtracting from your Maximum Retirement Allowance the annual cost (as actuarially determined) of the lump-sum benefit you elect to provide to your designated beneficiary(ies).

#### IN SUMMARY:

The Option 4 retirement allowance:

1. is a reduced benefit
2. is payable to you for life
3. ceases upon your death, but guarantees that a lump-sum benefit is payable to your designated beneficiary(ies)
4. permits you to change your designated beneficiary(ies) at any time

#### OPTION 4-2 AND OPTION 4-3 (Pop-Up Joint-and-Survivor)

Option 4-2 and Option 4-3 are known as the "Pop-Up" options. Like Option 2 and Option 3, they are intended for the retiree who wishes to ensure that after his or her death, a designated beneficiary will continue to receive a fixed annual lifetime benefit.

Option 4-2 and Option 4-3 provide a reduced Maximum Retirement Allowance, with the provision that upon your death either the same reduced retirement allowance (Option 4-2), or one-half of the reduced retirement allowance (Option 4-3), is continued to your surviving designated beneficiary for life.

The Pop-Up feature provides that if the designated beneficiary dies before the retiree, the retiree's benefit will "pop up" to the Maximum Retirement Allowance. All payments cease upon the death of the retiree, if the designated beneficiary predeceases him or her.

Because Option 4-2 and Option 4-3 guarantee two specific people an income for life, the life expectancies of the retiree as well as the beneficiary are taken into consideration. Therefore, under Option 4-2 and Option 4-3, once you designate a beneficiary and the option is in force you cannot change your beneficiary designation.

#### IN SUMMARY:

Both the Option 4-2 and Option 4-3 retirement allowances:

1. are reduced benefits
2. are payable to you for life
3. guarantee that 100% (Option 4-2) or 50% (Option 4-3) of your retirement allowance is payable to your designated beneficiary for life, if he or she survives you
4. provide that if your designated beneficiary dies before you, your retirement allowance will "pop up" to the Maximum Retirement Allowance
5. cease after the death of both you and your designated beneficiary
6. do not permit you to change your designated beneficiary

#### THE SPLIT OPTION

Under certain circumstances, you may split your retirement allowance and receive payment of your Pension Reserve (City portion and ITHP) and your Annuity Reserve (your accumulated salary deductions) under different options. If you wish to elect a split option, NYCERS will supply you with figures and the necessary forms, upon request.

*In addition to the options described above, you may elect any form of payment that is the actuarial equivalent of your Maximum Retirement Allowance as certified by the actuary and approved by NYCERS. You are **not** eligible, however, to receive one lump-sum payment of the entire Initial Reserve at retirement.*

