CHAPTER 10

# RETIREMENT OPTIONS

## *& the Self-Funded COLA*

(La. R.S. 11:446)

When you retire you must select a retirement option and a beneficiary(ies). You can name anyone as a beneficiary. Generally, a married member must choose a retirement option which provides a benefit for their spouse that is at least fifty percent of the benefit payable to the retiree. (Please see chapter 20 on Community Property and Divorce if you and your spouse have a separate property agreement.) You may choose an option that does not leave a monthly benefit for your spouse or name another beneficiary, if your spouse agrees with the choice, and signs *Form 04-04: Spousal Consent* in the presence of a Notary Public. Depending on the retirement option chosen, your beneficiary may receive a lifetime benefit in the case of your death. Below are the seven retirement options:

**Maximum Option** pays the maximum monthly benefit to you for your lifetime. This option does not pay a monthly benefit to a beneficiary(ies). Should you die before your member contributions are depleted, your beneficiary(ies) will receive a lump-sum payment of your remaining member contributions. Contributions are typically exhausted within two to three years after your retirement or entry into DROP.

**Option 1** pays you a slightly reduced monthly benefit for your lifetime. The benefit reduction is based on your employee contributions, your age, and your life expectancy at the time of your retirement. It does not pay a monthly benefit to a beneficiary(ies). Should you die before your member contributions are depleted, your beneficiary(ies) will receive a lump-sum payment of your remaining member contributions. Your contributions are depleted at an actuarially reduced rate, and are typically exhausted in approximately eight or more years after your retirement or entry into DROP. This *option is not available to members who choose the Initial Benefit Option (IBO).*

**Option 2A** pays you a reduced monthly benefit for your lifetime, and a benefit to your beneficiary after your death. The benefit reduction is based on the ages of you and your beneficiary at the time of your retirement. Upon your death, your beneficiary will receive a lifetime benefit of the same monthly amount for their lifetime. You can only select one beneficiary, and this beneficiary cannot be changed after retirement.

**Option 2B** is only available to members with a mentally handicapped child or children and pays you a reduced monthly benefit for your lifetime. The benefit reduction is based on the ages of you, your beneficiary, and your mentally handicapped child or children at the time of your retirement. Upon your death, your beneficiary will receive the same amount for their lifetime. At the beneficiary's death, a benefit is paid to the legal guardian of any mentally handicapped child or children. You must submit *Form 06-03: Option 2B Mentally Handicapped Designee,* along with your retirement application. This form must be certified by a physician.

**Option 3** pays you a reduced monthly benefit for your lifetime, and a benefit to your beneficiary after your death. The benefit reduction is based on the ages of you and your beneficiary at the time of your retirement. Upon your death, your beneficiary will receive 50 percent of your benefit for their lifetime. You can only select one beneficiary, and this beneficiary cannot be changed after retirement.

**Option 4A** is only available to members who have been married at least two years at the time of their retirement. Only your spouse may be named as your beneficiary. This option pays you 90 percent of the Maximum Option benefit for your lifetime. Upon your death, your spouse will receive 55 percent of your Maximum Option benefit for their lifetime. *This option is not available to Disability retirees.*

*If your named beneficiary dies, you may request to have your retirement benefit increased to the amount that you would have received had you initially selected the Maximum Option.*

**Option 4B** pays you a reduced monthly benefit for your lifetime. The benefit reduction is based on the ages of you and your beneficiary at the time of your retirement. Upon your death, your beneficiary will receive 55 percent of your benefit for their lifetime. You can only select one beneficiary, and this beneficiary cannot be changed after retirement.

For all options other than the Maximum Option or Option 1, only one beneficiary may be named, and the beneficiary cannot be changed after your retirement. If your named beneficiary dies, you may request to have your retirement benefit increased to the amount that you would have received had you initially selected the Maximum Option. If you named your spouse as your beneficiary, and you are now divorced, you may request to have your benefit increased to an actuarially reduced Maximum amount. You must provide a court order showing that your former spouse has irrevocably relinquished all rights to a benefit, submit *Form 10-06: Application for Change in Retirement Benefit due to Divorce*, and pay a nonrefundable actuarial calculation fee.

If you choose an option which will leave your spouse a monthly benefit in the event of your death, they will receive this benefit for their lifetime, even if they remarry.

## EXAMPLE

Martha is retiring with 13.20 years of service at age 60 and her beneficiary is age 64. She has an annual final average compensation of $31,668.00 and an accrual rate of 2.5%, so her Maximum retirement benefit is $895.87 per month. This amount will be reduced if she chooses a retirement option other than the Maximum. The chart below shows the monthly amount that she will receive depending on which retirement option she chooses:

| | **Maximum** | **Option 1** | **Option 2A** | **Option 3** | **Option 4A** | **Option 4B** |
|---|---|---|---|---|---|---|
| **Member Retirement Payment** | 100 percent | Reduced amount from maximum | Reduced amount based on ages at retirement | Reduced amount based on ages at retirement | 90 percent of maximum | Reduced amount based on ages at retirement |
| **Monthly Benefit to Member** | $895.87 | $890.27 | $813.94 | $852.94 | $806.28 | $848.88 |
| **Beneficiary Payment *(after your death)*** | Lump sum of remainder of unused employee contributions | Lump sum of remainder of unused employee contributions | Same amount as retiree | 50 percent of retiree's benefit | 55 percent of maximum | 55 percent of retiree's benefit |
| **Monthly Benefit to Beneficiary** | None | None | $813.94 | $426.47 | $492.73 | $466.88 |

## Self-Funded COLA (La. R.S. 11:247 and La. R.S. 11:446:(A)(6))

Unlike the system generated cost-of-living adjustments, which are funded by the retirement system upon legislative approval, the Self-Funded cost-of-living adjustment is funded by the member/retiree through the actuarial reduction of your monthly retirement benefit. You will receive the actuarially reduced benefit for your lifetime. It can take many years to regain the benefits initially reduced in order to fund the Self-Funded COLA.

At the time of retirement or entry into DROP, you may elect to receive an actuarially reduced retirement allowance plus a 2.5 percent annual cost-of-living adjustment (COLA), which will be effective on your retirement anniversary date. If you are not 55 at the time of retirement or entry into DROP, you are eligible to select the Self-Funded COLA, but it will not be payable to you until the anniversary date after you turn age 55. If you choose a retirement option which leaves your spouse a monthly benefit, the Self-Funded COLA will be added to their monthly benefit after your death. However, if you name a non-spouse beneficiary, the Self-Funded COLA will not be added to their monthly benefit after your death. *The Self-Funded COLA is not available for Disability retirement. If you selected the COLA at the time of retirement or entry into DROP, the COLA will apply to benefits received during your DROP participation period. The Self-Funded COLA also applies to supplemental benefits.*

If you elect to receive the Self-Funded COLA, you are also able to receive the system generated COLAs for which you are eligible. There is no guarantee of system generated COLAs. The amount of these COLAs are dependent upon the amount of excess investment returns deposited in the Experience Account used to fund COLAs, system funding, and legislative approval. No forms are used and no action is required by members to select these COLAs. For more information, see chapter 21 on Cost-of-Living Increases.

### EXAMPLE

Mary is retiring at age 60 with 20.00 years of service credit. She has a final average compensation of $50,000. Her maximum benefit would be calculated as follows:

| | | | | | | |
|---|---|---|---|---|---|---|
| $50,000.00<br>*average compensation* | x | 2.5%<br>*accrual rate* | x | 20.00<br>*years of service credit* | = | $25,000.00 *per year*<br>*($2,083.33 per month)*<br>***maximum benefit*** |

Mary's monthly maximum benefit with the Self-Funded COLA would be calculated as follows:

| | | | | |
|---|---|---|---|---|
| $2,083.33<br>*monthly maximum benefit* | x | 0.792440<br>*self-funded COLA reduction* | = | $1,650.91 monthly<br>***reduced monthly maximum benefit*** |

If Mary selects the Self-Funded COLA, she would initially receive a benefit of $432.42 less per month ($2,083.33 - $1,650.91) than she would have received had she not chosen the Self-Funded COLA. Depending upon the option Mary chooses, her benefit could be further reduced.

## Regular Retirement versus Self-Funded COLA

### EXAMPLE

Mary is retiring at age 60 with 20.00 years of service credit. She has a final average compensation of $50,000. This is a comparison of a Regular retirement benefit to a Regular retirement benefit with a Self-Funded COLA benefit.

***Regular Retirement Benefit***

- *Maximum benefit is $2,083.33*
- *No actuarial reduction to benefit*
- *After 15 years, Mary would have received $374,999.40 in retirement benefits.*

***Monthly Retirement Benefit***

| *After 5 Years* | *After 10 Years* | *After 15 Years* |
|---|---|---|
| ***$2,083.33*** | ***$2,083.33*** | ***$2,083.33*** |

***Regular Retirement with a Self-Funded COLA Benefit***

- *Reduced initial maximum benefit is $1,650.91*
- *2.5% Self-Funded COLA granted yearly on anniversary date after member turns age 55*
- *After 15 years, Mary would have received $355,247.96 in retirement benefits.*

***Monthly Retirement Benefit***

| *After 5 Years* | *After 10 Years* | *After 15 Years* |
|---|---|---|
| ***$1,822.30*** | ***$2,061.76*** | ***$2,332.69*** |

Even though Mary's monthly benefit would be higher after 15 years, she would have received **$19,751.44 less in total benefits by choosing the Self-Funded COLA.**

## Self-Funded COLA Break-even Point

Based on the example above, the chart below shows a yearly comparison of retirement benefits when choosing a Regular retirement with a Self-Funded COLA versus the benefit when choosing only a Regular retirement.

If Mary had chosen Regular retirement with a Self-Funded COLA, her break-even point would be between year 19 and 20. Since she retired at age 60, she would reach her break-even point at age 80.

| | **Regular Retirement Benefit** | | **Self Funded COLA Benefit** | | **Difference of Benefits (Break-even Point)** |
|---|---|---|---|---|---|
| | *Yearly* | *Total Benefits* | *Yearly* | *Total Benefits* | |
| **Year 5** | $24,999.96 | $124,999.80 | $21,867.55 | $104,132.70 | **-$20,867.10** |
| **Year 10** | $24,999.96 | $245,999.60 | $24,741.12 | $221,949.30 | **-$28,050.30** |
| **Year 15** | $24,999.96 | $374,999.40 | $27,992.31 | $355,247.96 | **-$19,751.44** |
| **Year 19** | $24,999.96 | $474,999.24 | $30,898.27 | $474,392.44 | **-$606.82** |
| **Year 20** | $24,999.96 | $499,999.20 | $31,670.73 | $506,063.17 | **-$6,063.97** |

**The choice to take the Self-Funded COLA is irrevocable, and you will receive this actuarially reduced benefit for your lifetime. We strongly suggest that you obtain a retirement estimate prior to making this selection.** ■

### MEMBER FORMS

***Form 04-04:*** *Spousal Consent*

***Form 06-03:*** *Option 2B Mentally Handicapped Designee*

***Form 10-06:*** *Application for Change in Retirement Benefit due to Divorce*