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Understanding the Partial Lump Sum Option (PLSO)

Strength
Stability
Security



PUBLIC SCHOOL RETIREMENT
SYSTEM OF MISSOURI

The Partial Lump Sum Option (PLSO)

PSRS members have the choice of six different benefit plans for the payment of lifetime monthly benefits. For those members who qualify, there is also a benefit payment option that offers a lump-sum payment at retirement in addition to lifetime monthly benefits.

In exchange for reduced lifetime monthly benefits, eligible PSRS members can choose to receive a one-time Partial Lump Sum Option (PLSO) payment at retirement.

The PLSO payment can equal 12, 24 or 36 times the Single Life monthly benefit amount. The Single Life benefit plan provides the largest monthly benefit amount of all available benefit plans.

If you choose the PLSO, your lifetime monthly benefit amount is actuarially reduced to offset the payment of the lump-sum at retirement. In effect, the reduced monthly benefits are how you “pay” for the right to receive part of your lifetime benefit up-front.

You must also choose one of the six benefit plans (Single Life, Joint-and-Survivor, or Term-Certain) to direct how you would like your monthly benefits paid. These plans offer you the flexibility to provide varying levels of financial protection for your family after you are gone. Visit our website, or view your **Member Handbook** online, for more information on the various benefit plans available.

Eligibility Requirements

You are eligible to choose a one-time PLSO payment at retirement with reduced lifetime monthly benefits if you:

- Are age 63 with eight or more years of credit, or
- Have 33 or more years of credit, or
- Qualify for Rule of 86 (when your age plus your years of credit equals 86 or more).

Eligibility Note: If you return to work for a PSRS-covered employer after retirement and your employment meets membership eligibility requirements, you must start a second membership. You cannot receive a PLSO payment on the second, or special vested, membership.

Calculating PLSO Benefits

Although the basic formulas used to calculate PLSO benefits are included in this brochure, you can estimate your benefits anytime using the Benefit Estimate Calculator found on our website, www.psr-peers.org. You need to know your projected retirement date(s), years of credit, and estimated salaries. If you are unsure of your credit or salary information, you can reference your **Member Statement**, or log in to your personal account information on our website.

Your retirement benefits, including a PLSO, are taxable. The benefit amounts shown for illustrative purposes in this brochure are before taxes. For more information on income taxes and the PLSO, see page 5.

One-Time, Lump-Sum Payment

Your PLSO payment is determined by multiplying your Single Life monthly benefit amount by 12, 24 or 36 months. In the example below, the member selected a 12-month lump-sum payment.

Lifetime Single Life Monthly Benefit	x	12, 24 or 36	=	PLSO Payment
\$3,188	x	12	=	\$38,256

Reduced Lifetime Monthly Benefits

In addition to a lump-sum payment, you receive reduced lifetime monthly benefits. Because of the lump-sum payment, your monthly benefits are actuarially reduced to reflect the value of your PLSO payment and your age. This reduction is calculated by multiplying your Single Life



monthly benefit amount by a PLSO reduction factor (see the chart below). The reduction applies regardless of the benefit plan (Single Life, Joint-and-Survivor or Term-Certain) you choose for the payment of your monthly benefits.

In the example below, the member is 61 years old and selected a 12-month lump-sum payment. His PLSO reduction factor, therefore, is .9172.

Lifetime Single Life Monthly Benefit	x	PLSO Reduction Factor	=	PLSO-Reduced Lifetime Single Life Monthly Benefit	
\$3,188	x	.9172	=	\$2,924	

PLSO Reduction Factors

Retirement Age	12-Month Factors	24-Month Factors	36-Month Factors
55	.9246	.8491	.7737
56	.9235	.8471	.7706
57	.9224	.8449	.7673
58	.9213	.8425	.7638
59	.9200	.8400	.7600
60	.9186	.8372	.7559
61	.9172	.8343	.7515
62	.9156	.8312	.7468
63	.9139	.8279	.7418
64	.9122	.8243	.7365
65	.9103	.8205	.7308
66	.9082	.8165	.7247
67	.9061	.8121	.7182
68	.9038	.8075	.7113
69	.9013	.8026	.7038
70	.8986	.7972	.6958

Note: The factors in this table are approximates. The exact reduction factor applied will depend on your month and year of birth.

Taxes on PLSO Payments

If you choose the PLSO, consider the potential tax consequences.

The portion of the PLSO payment equal to all previously-taxed funds that were credited to your account prior to January 1, 1987 is considered non-taxable income. If you do not have any contributions in your account that meet this criterion, 100% of your distribution is taxable income in the year the PLSO payment is made.

If a rollover of the taxable amount of your PLSO payment does not occur, any portion of the payment that is considered taxable income by the IRS is subject to the mandatory 20% federal tax withholding by PSRS. If your payment occurs before you reach age 59 ½, you may also be subject to a 10% federal tax penalty in addition to the ordinary income tax owed. This penalty does not apply if you separate from service in or after the tax year in which you reach age 55.

PLSO payments may also be subject to state income taxes, although not withheld by PSRS.

You will receive an IRS Form 1099-R for the year you receive your PLSO payment, showing the amount of the taxes withheld, as well as the taxable and non-taxable amounts of the lump-sum payment.

Because PSRS does not offer tax advice, we strongly suggest that you consult a tax professional before making a final decision regarding the PLSO.

Defer Taxes with a Rollover

You can request a direct rollover of your lump-sum payment to a qualified retirement account, such as an IRA, to defer taxes and avoid the 10% penalty. Please keep in mind that taxed funds rolled over into a Roth IRA are considered taxable income in the year in which the rollover takes place.

If you have 100% of your PLSO payment (including both taxable and non-taxable funds) rolled over into a qualified retirement plan, you should check with your financial advisor to determine if the taxable and non-taxable portions will be tracked separately. This is required by the IRS and will ensure that you are not taxed again on any previously-taxed dollars. Only one check can be issued by PSRS for rollover funds. PSRS is not required to withhold

federal tax when funds are rolled over into a qualified retirement plan.

For more information, please refer to the brochure, **Your Rollover Options**, that is included with your PLSO **Benefit Estimate**, or download it from our website.

Making the PLSO Decision

Because PLSO payments can be large, members are sometimes pressured by financial advisors, private insurance companies and retirement planners to choose the PLSO. They are advised to invest the funds elsewhere with the promise that doing so will provide better financial results, or to use the lump-sum to purchase insurance policies that will provide protection in the form of an annuity for the member's spouse or loved one. Any promises of riches or unusually high investment returns should be carefully considered. When in doubt, get a second opinion.

The decision to choose the PLSO is an individual one, and members often have personal reasons for the choice (paying off medical bills, leaving an inheritance, building a nest egg, etc.). The list can be endless and only you can decide what is best for you and your family.

When deciding whether the PLSO is right for you, here are a few factors to consider:

Pros of the PLSO:

1. It can provide funds to help you pay off a long-term financial obligation (such as a mortgage) before retirement.
2. If you will have other dependable sources of retirement income in addition to your monthly PSRS benefit, you can choose the PLSO and still have adequate retirement income.
3. It can allow you more control of, and responsibility for, investing for your retirement.

Cons of the PLSO:

1. Your monthly PSRS benefits will be reduced for life.
2. Any future cost-of-living increases will be based on your PLSO-reduced monthly benefit amount.
3. Investing a PLSO payment with the objective of "out-earning" your PSRS guaranteed lifetime monthly benefit may involve riskier investments with no guaranteed outcome.
4. If you name a beneficiary to receive monthly benefits after you die, taking the PLSO will reduce the amount of the monthly payment your beneficiary will receive.
5. If you choose the PLSO and do not roll over the taxable portion of the lump sum to an eligible plan, you will owe taxes on the lump sum. If you are under age 59 ½, you may be required to pay an additional 10% tax penalty, unless you separate from service during or after the year you reach age 55.

Choosing the PLSO can have a significant impact on your future retirement benefits and requires careful consideration. There are many reasons why you may choose the PLSO, and it may be a good choice for you. However, before you decide, enlist the help of a good financial planner who can help guide you in making the choice for all the *right* reasons.

