TEACHER RETIREMENT SYSTEM OF TEXAS

DEFERRED RETIREMENT OPTION PLAN

TEACHER
RETIREMENT
SYSTEM OF
TEXAS

DROP

PLSO

See Reverse Side

October 1999

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DROP

Deferred Retirement Option Plan

Teacher Retirement System of Texas

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Explanation of DROP

The Deferred Retirement Option Plan (DROP) is an optional benefit program of the Teacher Retirement System of Texas (TRS) which offers qualified active members a way during their working years to accumulate funds in a special DROP account for distribution at retirement. Participating members may elect distribution either as one lump sum payment or in periodic installments.

Eligibility Criteria

Active TRS members are eligible to participate in the plan if they meet ***all three*** of the following conditions. They must:

- be active contributing members;
- be eligible for a service retirement annuity that is not reduced for early age; *and*
- have at least 25 years of service credit in TRS.

Determining a Standard Annuity for DROP

The monthly deposit to a member's DROP account is 60 percent of the calculated monthly standard annuity for those entering DROP on or after September 1, 1999. The standard annuity is determined by multiplying a member's total years of service credit by 2.2 percent and then multiplying that amount by the average of the member's three highest salaries (creditable compensation). This results in an annual standard annuity which is divided by 12 to determine the monthly standard annuity. The standard annuity determined for DROP is also the standard annuity upon which the member's future retirement benefits will be based.

Both earned salary and service credit are important factors in determining a member's DROP deposits and future retirement benefits. To calculate the amount of DROP deposits, TRS calculates a member's standard annuity using only the three highest years' salaries earned through the last day of the month immediately preceding the DROP participation date. Years of service credit are determined as of the last day of the month immediately preceding the DROP participation date. TRS relies on information from employers to make these determinations.

Earned Salary

Earned salary for the school year in which the member begins DROP participation is determined as of the last day of the month immediately preceding the DROP participation date. Consider the following examples:

- If the effective date of participation is February 1, only salary earned through January 31 would be considered for that school year. It is not likely that six months of salary would produce one of the three highest annual salaries to be included in the calculation.
- If the effective date of participation is June 1, only salary earned through May 31 would be considered in determining the three years of highest salary. If members complete their required number of contract days by May 31 and have elected to have their salaries spread over 12 months, their "earned" salary for that school year would include all remaining amounts due to be paid *after* May 31.

If members plan to complete their current school year before entering DROP and they wish to have their entire school year's salary considered, they should designate a DROP effective date no earlier than the first day of the month following the month in which they complete the days of service required by their contract or work agreement. Their election must be mailed in time to be received at TRS before the date of participation.

Service Credit

A member earns a year of TRS service credit for each school year in which the member works in an eligible position or is on paid leave for at least four and one-half months, a full semester of more than four calendar months, or at least 90 work days. For example:

- A member with a July 1 contract start date earns a credited year of service based on four and one-half months by November 15, provided there are no deductions in salary for absences.
- A member who completes a full semester of more than four calendar months by December 31 earns a creditable year by December 31, provided the member is an employee paid for every day of the semester.
- A member who is employed in a year-round school must work or be paid for at least 90 work days in a school year to earn a year of service credit.

If members wish to have the current school year count as a year of service credit for calculation of their DROP deposits and future retirement benefits, they should designate a DROP effective date no earlier than the first day of the month following the month in which they complete the days of service required by their contract or work agreement. Their election must be mailed in time to be received by TRS before the date of participation.

Special Service Credit

Members may increase their years of service by purchasing any eligible special service credit. The most common types of special service are active duty military, out-of-state public education, withdrawn TRS service, and substitute service. An election to participate in the DROP constitutes a deadline for the purchase of special service credit. Members who are eligible to purchase special service and wish to receive credit must make payment in full for that service before their DROP participation date.

Note: Service credit in the Employees Retirement System (ERS) is not eligible for transfer to TRS for the purpose of determining DROP eligibility or deposits.

The DROP Election Packet

Members who wish to receive a DROP election packet should write to:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

A written request should include the member's full name, signature, Social Security number, home mailing address, current position, daytime telephone number, and a description of any unpaid special service that he or she wishes to purchase. Also, please provide TRS with the number of days/months that you normally work under contract or in a work agreement along with the beginning date of service for the current school year.

The DROP election packet will include an estimate of the member's monthly DROP deposits along with his or her projected DROP account balance based on one through five years of participation. TRS will also include all forms necessary for the member to make an election to participate in DROP.

The Effective Date of the DROP Election

The effective date of a member's DROP election, also referred to as the DROP participation date, is the *first day of the month designated on the DROP election form, or the first day of the month following the month in which TRS receives the election form, whichever is later.*

Important Considerations Before Electing to Participate in DROP

A DROP Election is Irrevocable

TRS law specifies that when members enroll in DROP, they do so as an **irrevocable, one-time election.*** As a result, it is extremely important that members determine the suitability of DROP for their retirement needs before they submit form TRS 567, "Election to Participate in the Deferred Retirement Option Plan (DROP)." They should also remember that their election to participate in DROP becomes their deadline for purchasing special service credit.

Participation Period

Members may elect to participate in DROP for a period of one to five years, in yearly increments. Only three events can terminate DROP participation: (1) retirement, (2) expiration of the participation period, or (3) the member's death.

Member Contributions During DROP

Members participating in DROP continue to make monthly contributions as required by law to TRS during their employment, and this includes the period during DROP participation. *However, they no longer earn further service or salary credits for their retirement annuities while participating in DROP.*

Interest Earned and Applied

TRS credits interest at the rate of five percent per annum to members' DROP accounts until final distributions are made. The first DROP distribution is due and payable at the same time

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**The 76th Legislature approved one exception to this law. This exception provides DROP participants enrolled on or before August 31, 1999, with a one-year window from September 1, 1999, through August 31, 2000, in which DROP participation may be revoked.*

as the member's first retirement annuity payment. From that point on, monthly distributions are paid on the first of each succeeding month until the DROP account has been fully distributed. Yearly distributions occur on the anniversary due date of the first payment.

Member contributions made during DROP participation are not refundable (except with the one-year window noted above). Contributions made by a member while participating in DROP are not deposited into either the member's contribution account or DROP account. Rather, these contributions are deposited into the retirement reserve account. This account is used to pay all retirement annuities and all death or survivor benefits, including post-retirement benefit increases and other annuity adjustments.

Working After DROP

A member may continue to work after the end of the DROP participation period if desired. Any additional service credit rendered after the end of DROP participation will be used to calculate a second component to the retirement annuity. This additional component will be based ***only*** on the years of service credit and eligible salaries earned ***after*** DROP participation ends.

This second component of the annuity is calculated using the same formula as all other TRS retirement annuities. If a member has fewer than three creditable years of service after the end of the DROP participation period, the average salary will be the average for the number of years credited. Post-DROP employment continuation does not require new vesting for benefit purposes.

Distribution Methods

Upon retirement, TRS distributes the accumulated amount in the member's DROP account. The member may select one of the following methods of distribution:

- one lump sum payment;
- yearly or monthly increments over a five-year period; or
- yearly or monthly increments over a 10-year period.

A retiree who first elects a monthly or yearly distribution may later make a one-time election to accelerate installment payments to a lump sum amount representing the remaining DROP account balance.

Designating a DROP Beneficiary

TRS members participating in DROP should separately designate one or more beneficiaries to receive any DROP benefits due in the event of death. Form TRS 11D, "Designation of Beneficiary for Deferred Retirement Option Plan (DROP) Benefits," is included in the DROP election packet. Members should complete and return this form at the same time they submit their DROP election form (TRS 567).

DROP beneficiaries do not need to be the same person(s) named to receive other TRS payments upon the death of the member or annuitant. However, in the absence of a designated DROP beneficiary, DROP distributions will be made according to Texas Law (Section 824.103 of the Texas Government Code).

Death Before Retirement

In the event of the death of a member participating in DROP who has not yet retired, the DROP beneficiary is entitled to receive the accumulated lump sum amount in the DROP account including credited interest. The payment may be eligible for roll over to an IRA.

Death After Retirement

Upon the death of an annuitant who is receiving a DROP distribution in installments, an amount equal to the member's distribution will continue to be made to the DROP beneficiary until the

DROP account is fully distributed. As an alternative, the DROP beneficiary may make a one-time election to accelerate payments to a lump sum amount representing the remaining DROP account balance.

Federal Income Tax

Participating in the DROP may have federal income tax consequences. All DROP distributions, except for benefits paid monthly over a 10-year period, have been determined to be "roll over eligible." Members who do not elect to roll over an eligible distribution will have 20 percent federal income tax withheld from the distribution, as required by federal tax law. More than 20 percent may be withheld at the request of the member. Also, if the member retires before age 59½, a 10 percent early distribution tax may apply to any amounts not rolled over during the period when these distributions are being made. Internal Revenue Service Publication 575, "Pensions and Annuity Income," provides additional information.

If a member elects the 120-month payout, TRS will withhold according to the member's tax withholding preference filed with the system. There still may be a 10 percent tax penalty if the member retires prior to age 59½. Members over age 70½ may have additional tax considerations. The determination of the tax consequences of distributions is a complex matter. Therefore, questions concerning a member's specific tax situation should be referred to a tax professional or financial adviser.

Illustration - How a DROP Account Works

A member is age 55 and has 25 years of service credit as of January 15, 2000. She wants to delay entering DROP until she has earned her full 1999-2000 contract salary. She will earn her full salary by May 31, so she will send her DROP election form to TRS, designating June as her effective date of participation, in time to be received at TRS by May 31. Her best three years' salaries were $28,000, $30,000 and $32,000. The member plans to participate in DROP for three years and to retire on May 31, 2003.

Before calculating the estimated DROP benefit, determine the member's eligibility to participate in DROP. Since this member is age 55 with 25 years of service, she is eligible for an *unreduced annuity* (because the sum of her age and years of service total at least 80). She has *25 years* of covered participation in TRS, and she is an *actively employed contributing member.* Because the member meets all three requirements, she is eligible to participate in DROP. Therefore, we can now follow the steps prescribed in this brochure's DROP Work Sheet to estimate the member's DROP benefit.

Step One

List the member's three highest salaries.

$28,000 + $30,000 + $32,000 =

Combined total of $90,000

Step Two

Calculate the member's highest average annual salary by dividing the figure by three.

$90,000 ÷ 3 = $30,000

Step Three

Multiply the member's total years of service credit by 2.2 percent (current multiplier established by law).

25 years x .022 = .55 (total percent)

Step Four

Multiply the total percent by the member's highest three-year average salary.

.55 x $30,000 = $16,500

(This is the member's estimated annual standard annuity.)

Step Five

Divide by 12 to convert the member's estimated annual standard annuity to a monthly amount.

$16,500 ÷ 12 = $1,375

This is not only the amount of the member's annuity for purposes of calculating monthly deposits to the DROP, but it is also the basic standard annuity that determines the amount the member will receive upon retirement. At retirement, an optional reduced annuity payment may be selected to continue benefits to a designated beneficiary.

Step Six

Multiply by .60 (the DROP multiplier) to determine the amount of the member's

annuity which will be accrued monthly in her DROP account.

$1,375 x .60 = $825.00

Step Seven

Multiply this amount by the appropriate factor listed in this brochure's DROP Work Sheet (see pg. 13) for three years of participation in DROP (38.689326).

$825.00 x 38.689326 = $31,918.69

Summary

- The member qualifies for participation in DROP.
- Provided TRS receives her DROP election form no later than May 31, 2000, her participation would begin on June 1, 2000, and would continue for three years.
- Although she elected to participate for three years, should retirement or death occur before expiration of her participation period, she would terminate participation in DROP.
- Upon entering DROP, the member's monthly standard annuity for retirement would be frozen at $1,375 for life.
- Provided the member does not retire or die prior to the end of her 36-month participation period, her DROP account would total $31,918.69 at the end of the 36 months and would be distributed at retirement.
- At retirement, the member would elect a DROP account distribution method and begin drawing her $1,375 monthly standard annuity, or a reduced annuity if an optional plan is selected at retirement.

Work Sheet for Estimating DROP Accounts

This work sheet has been prepared for TRS active members who are considering participation in the Deferred Retirement Option Plan (DROP). You may **estimate** your own monthly DROP deposits, and the resulting balance which would accrue in your DROP account, by following these steps:

1. List your three highest annual salaries and then add them together.

Year 1 - $ __________

Year 2 - $ __________

Year 3 - $ __________

TOTAL - $ __________

2. Calculate your highest average annual salary by dividing this figure by three.

______ ÷ 3 = $ __________

3. Multiply years of service by 2.2 percent (.022).

______ x .022 = __________(total %)

4. Multiply your total percent times your highest average annual salary. (This is your estimated annual standard annuity.)

______ x __________ = $ __________

5. Divide by 12 to convert your estimated annual standard annuity to a monthly amount.

______ ÷ 12 = $ __________

6. Multiply by .60 (the DROP multiplier) to determine the amount of your annuity that will be deposited into your DROP account.

_____ x .60 = $ _________

7. Multiply by the appropriate factor* from the table below.

_____ x _________ = $ _________

This is the estimated balance to be accumulated in your DROP account.

Factors for Calculating DROP Balances

*Based on the number of months you would select to participate in DROP, choose the corresponding factor, shown below:

# of Months	Factor
12	12.272580
24	25.158795
36	38.689326
48	52.896390
60	67.813813

For a complete statement of the laws and administrative rules that pertain to the DROP program, consult TRS Laws and Rules *(Chapters 824 and 825, Texas Government Code; Chapter 29, TRS Rules). Available via the TRS Web Site (www.trs.state.tx.us).*

Frequently Asked Questions

1. What are the eligibility requirements for participating in DROP? TRS members must (1) be active contributing members, (2) be eligible for a service retirement annuity that is not reduced for early age, *and* (3) have at least 25 years of service credit in TRS.

2. What is considered the effective date of a member's DROP election? Also known as the DROP participation date, the effective date of a DROP election is the first day of the month designated on the DROP election form, or the first day of the month following the month in which TRS receives the election form, whichever is later.

3. Once members elect to participate in DROP, how can participation be terminated? Only three events can terminate DROP participation: (1) retirement, (2) expiration of the participation period, or (3) the member's death. However, legislation passed in 1999 allows certain members to revoke participation (see below).

4. Is it possible to revoke one's DROP participation after a member has elected to participate? If the participant enrolled *on or before August 31, 1999*, he or she has a one-year window from September 1, 1999, through August 31, 2000, to revoke participation. In all other cases, it is not possible to revoke DROP participation.

5. How long may a member participate in DROP? For a period of one (1) to five (5) years in yearly increments.

Notes

Notes

to 36 months, you have two other options for receiving payments covering 12 months and 24 months of your standard annuity.

7. **If I select a two- or three-year PLSO, would it be better for me to take a payout or immediately roll proceeds into another tax-sheltered investment?** TRS will not pay interest on PLSO balances during distribution. For members who have the financial skills to manage their account (or a source of trustworthy advice), it is likely that they can as a minimum earn interest in an insured account by rolling the balance over to an IRA. TRS does not make investment recommendations, so members should consult with their own tax and financial adviser on investment options.

8. **How will participation in DROP or election of PLSO impact future annuity increases for retirees should they be provided?** Both programs effectively limit a retiree's initial annuity as compared with the annuity that would be received if they had not selected one of these options. Post-retirement increases are based on the amount of a retiree's annuity. Consequently, any future increases that may be approved would be smaller than they otherwise would be since they would be calculated on a smaller annuity. Given the longer life span of retirees today, this factor should be considered when deciding whether to participate in either DROP or PLSO.

For a complete statement of the laws and administrative rules that pertain to PLSO, please consult the TRS Laws and Rules *(Laws, Chapter 824, and Rules, Chapter 29).*

tion account; rather, they are deposited into the retirement reserve account that is used to pay all retirement annuities and death or survivor benefits, including post-retirement benefit increases and other annuity adjustments.

4. **Will my standard annuity be reduced if I participate in PLSO?** Yes. While your actual lump-sum distribution(s) will be based on your unreduced standard monthly annuity, your monthly annuity payments will be actuarially reduced due to the election of PLSO. A further reduction may be made if an optional retirement plan is selected.

5. **How will PLSO distributions be taxed?** Your PLSO distributions are subject to federal income tax withholding. Since these payments have been identified as eligible rollover distributions, TRS must withhold 20 percent for income tax unless the eligible portion is rolled over into an eligible plan. To defer paying taxes on these payments, you may roll over all or a portion of the entire "eligible rollover distribution" amount to another qualified plan or IRA. For additional information on this topic, please contact your tax consultant or the Internal Revenue Service at 1-800-829-1040.

6. **I'd like to obtain the largest possible PLSO distribution available to me. Since such distributions enable me to receive advance payment of my monthly annuity, how many months worth of payments could I receive?** Members may select a partial lump-sum distribution not to exceed an amount equal to 36 months of a standard service retirement annuity. When you apply for a distribution, your annuity will be actuarially reduced to reflect that distribution and will be computed so that no actuarial loss results to TRS. In addition

Frequently Asked Questions

1. **How can members determine if participation in DROP, PLSO, or neither of these options would best meet their needs?** DROP and PLSO have different eligibility requirements and characteristics, so members should seek assistance from a financial adviser as needed. It is important to note that participation in either DROP or selection of a PLSO distribution results in a reduction of a retiree's monthly annuity. Members should consider the uses of any lump-sum payments that they will receive. Generally, a use that enhances retirement income or savings may merit consideration of these programs. On the other hand, uses that involve expenditures in depreciable assets or that are for leisure should be given careful consideration as they may compromise long-term retirement income.

2. **Under what conditions may a member revoke DROP participation in order to apply for a PLSO distribution?** Members who enrolled in DROP on or before August 31, 1999, have a one-year window, from September 1, 1999, through August 31, 2000, to revoke their DROP participation. Should they do so, TRS is directed by law to reestablish the member account as if the member had never participated in DROP. If a member revokes DROP participation and then continues TRS-covered employment, he may apply for a PLSO distribution at retirement as long as he is eligible for unreduced retirement benefits at that time.

3. **If a current DROP participant revokes his DROP participation in order to apply for a PLSO distribution, will he be entitled to a refund of his DROP contributions to date?** No. DROP contributions are not deposited into their member contribu-

Reduced Standard Annuity Table

Age	12 Months	24 Months	36 Months
	Percentage of Standard Annuity		
50	91.40	82.79	74.19
51	91.33	82.66	73.99
52	91.26	82.52	73.78
53	91.18	82.37	73.55
54	91.10	82.20	73.31
55	91.01	82.03	73.04
56	90.92	81.84	72.75
57	90.81	81.63	72.44
58	90.70	81.41	72.11
59	90.58	81.17	71.75
60	90.46	80.91	71.37
61	90.32	80.64	70.95
62	90.17	80.34	70.51
63	90.01	80.03	70.04
64	89.85	79.69	69.54
65	89.67	79.34	69.01
66	89.48	78.96	68.44
67	89.28	78.56	67.84
68	89.06	78.13	67.19
69	88.84	77.67	66.51
70	88.59	77.18	65.77
71	88.32	76.65	64.97
72	88.03	76.07	64.10
73	87.72	75.43	63.15
74	87.37	74.74	62.12

Percentages for ages not shown above may be found on the TRS Web site (www.trs.state.tx.us).

6. Multiply your estimated (unreduced) monthly standard annuity by the number of months (12, 24, or 36) that you want your PLSO payments to cover. The result is the total amount to be paid in PLSO payments.

$______ x _______ = $__________

7. Refer to the Reduced Standard Annuity Table to determine how much you will also receive in monthly standard annuity payments (actuarially reduced due to the receipt of PLSO payments). To determine the amount of your *reduced* monthly standard annuity, multiply your *unreduced* monthly standard annuity by the appropriate reduction factor shown on page 9.

$_______ x _____% = $__________

Reduced Standard Annuity Table for Those Participating in PLSO

Percentages shown in the following table will be applied to reduce a member's standard annuity when he or she elects a partial lump-sum distribution. (Percentages for those other than age 50-74 may be found on the TRS Web site.) For example, a member who retires at age 60 with a $2,000/month annuity and selects a partial lump-sum distribution of 12 months would receive $24,000 ($2,000 x 12) plus $1,809.20 per month ($2,000 x 90.46%). If a member then selects an optional retirement annuity, the option factor will be applied to the reduced standard annuity.

Work Sheet for Estimating PLSO Benefits

You may **estimate** your own PLSO benefits and resulting reduction to your standard monthly annuity by using the following work sheet:

1. List your three highest annual salaries and then add them together.

Year 1 - $ __________

Year 2 - $ __________

Year 3 - $ __________

TOTAL - $ __________

2. Divide this total by 3.

________ ÷ 3 = $__________
(your highest average salary)

3. Multiply your total years of service credit by 2.2 percent.

________ x 2.2% = __________
(total percent)

4. Multiply your total percent by your highest average salary. (This is your estimated annual standard annuity.)

________ x $ __________ = $__________

5. Divide by 12 to convert your estimated annual standard annuity to a monthly amount.

________ ÷ 12 = $__________

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Step Seven

Refer to the PLSO Distribution Table, page 9, to determine how much the member will also receive in monthly standard annuity payments (actuarially reduced due to the receipt of PLSO payments).

In summary, this hypothetical case illustrates that the member:

- may participate because she qualifies under present criteria;
- will receive a cash payment in the amount of $33,000 at retirement (alternate distribution options are available as noted); and
- will receive an actuarially reduced standard monthly annuity for life in the amount of $1,127.91.

Step Four

Multiply the total percent by the member's highest average salary.

.55 x \$30,000 = \$16,500

(This is the member's estimated annual standard annuity.)

Step Five

Divide by 12 to convert the member's estimated annual standard annuity to a monthly amount.

\$16,500 ÷ 12 = \$1,375

This is the amount of the member's standard annuity for purposes of calculating PLSO distributions. (This standard annuity is actuarially reduced whenever a member elects to receive a PLSO distribution. To determine how much annuity payments will be reduced, please refer to the table on page 9.)

Step Six

Multiply the member's estimated monthly standard annuity times the number of months in which the member wants the PLSO payments to cover.

The result is the total amount to be paid in PLSO payments.

\$1,375 x 24 (months) = \$33,000

- not be participating in the Deferred Retirement Option Plan (DROP); *and*
- not be retiring with disability benefits.

Next, the member must follow the steps prescribed in this brochure's PLSO Work Sheet to estimate what her PLSO benefit will be.

Step One

List the member's three highest salaries.
$28,000 + $30,000 + $32,000 =
Combined total of $90,000

Step Two

Calculate the member's highest average salary by dividing the figure by three.
$90,000 ÷ 3 = $30,000

Step Three

Multiply the member's total years of service credit by 2.2 percent (current multiplier established by law).
25 years x 2.2% = .55 (total percent)

Calculating PLSO Reductions to a Member's Standard Annuity

Eligible members who select a partial lump-sum option will receive an actuarially reduced annuity as a result of their selection. Percentages shown on page 9 will be applied to reduce a member's standard annuity once a decision is made to participate in PLSO. The member's age in whole years (shown in column one) and the percentage of an annuity factor (shown in columns two, three and four) will be used to determine the reduction in the standard annuity to be paid to a member who elects to participate in PLSO.

Illustration of a PLSO Distribution

A member retires at age 55 and has 25 years of service credit as of September 1, 1999. Her highest three years' salaries were $28,000, $30,000, and $32,000. Rather than receive her full standard annuity, she is considering whether or not to apply for a partial lump-sum option (PLSO) distribution covering a 24-month period. Should she make this decision, she understands that her standard annuity will be actuarially reduced accordingly. To determine what is best for her, the member will need to identify (1) how much she will receive in two PLSO distributions over 24 months, (2) how much her monthly standard annuity will be reduced as a result of her decision, and (3) whether she would need a lump-sum distribution up front.

Before calculating the estimated PLSO benefit and resulting reduction to her standard annuity, the member needs to confirm that she is eligible to participate in PLSO. To participate, she must:

- be eligible for unreduced service retirement benefits (not early age retirement) after September 1, 1999;

payments will have their second and third payments made on the anniversary due date of their initial lump-sum payment. No interest will be paid on any lump-sum amounts. Persons who initially select two or three annual lump-sum payments may accelerate the payments and receive all remaining payments due at any time. To accelerate the payment, the retiree must elect to do so on a form prescribed by TRS. Retirees are also permitted to roll over the eligible portion of any lump-sum payments to a qualified retirement plan to the extent authorized by law.

PLSO Beneficiary Designations

A retiree may designate a beneficiary for the sole purpose of receiving unpaid PLSO payments at the time of the retiree's death. For this to occur, the retiree must make this designation on form TRS 12L, "Designation of Beneficiary for Partial Lump-Sum Payment(s)," prescribed by and filed with TRS. The designation on form TRS 12L will only determine the beneficiary of a PLSO and will not affect the distribution of other death benefits.

Should a retiree die prior to receiving all PLSO payments that are due, TRS will pay any remaining PLSO payments in a single lump-sum payment. If a PLSO beneficiary has not been designated on form TRS 12L, or if the beneficiary(ies) designated on form TRS 12L predeceases the retiree, this payment will be made in accordance with the most current beneficiary designation on file with TRS for the retiree's retirement annuity and as provided by law. If the beneficiary is the retiree's spouse, the payment may be rolled over to an IRA.

Explanation of PLSO

In 1999, the 76th Texas Legislature approved the establishment of a new partial lump-sum option program for eligible TRS members. Through this new program, qualified members may select a partial lump-sum distribution in addition to a standard or optional retirement annuity--both of which are actuarially reduced--when they retire.

Eligibility Criteria

TRS active members are eligible to participate in the Partial Lump-Sum Option Program (PLSO) if they meet the following conditions. They must:

- be eligible for unreduced service retirement benefits (not early age retirement benefits) after September 1, 1999;
- not be participating in the Deferred Retirement Option Plan (DROP); *and*
- not be retiring with disability benefits.

PLSO Distribution Options

At retirement, a member may select a partial lump-sum distribution equal to 12, 24, or 36 months of a standard service retirement annuity. When this option is selected, the member's annuity will be actuarially reduced to reflect the value of the PLSO distribution. (The combination of both the PLSO and the reduced annuity are the equivalent of the unreduced standard annuity.)

A lump-sum amount equal to 12 months of a standard annuity may be taken at the same time as the member's first monthly annuity payment. A lump-sum amount equal to 24 months may be taken in either one or two annual payments. A lump-sum amount equal to 36 months may be taken in one, two, or three annual payments. Those selecting two or three annual lump-sum

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Teacher Retirement System of Texas

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www.trs.state.tx.us

PARTIAL LUMP-SUM OPTION

TEACHER RETIREMENT SYSTEM OF TEXAS

DROP

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