

Montana Teachers' Retirement System

Ready... Set... Retire!

Retirement Education Seminar ♦ Fall 2024



Today's presentation will cover:

- How TRS works as a Defined Benefit (DB) pension
- Your responsibilities as a TRS member
- Eligibility for retirement – Tier 1 and Tier 2 members
- How benefits are calculated
- The TRS retirement application process
- Other things you should know about TRS

TRS is a Defined Benefit pension

In a **Defined Benefit (DB)** pension plan:

- Both you and your employer have contributed a percentage of your wages to TRS since your first day of employment or membership
- Your retirement benefit is based on your years of service and your Average Final Compensation (AFC) – NOT your account balance
 - *“Defined Benefit” means your retirement benefit is guaranteed for life!*
- Retirement benefits are paid to you – or to your beneficiary
- You also have survivor and disability protection while an active member



Defined Benefit (*continued*) vs. Defined Contribution

- The Montana Board of Investments takes care of all investment decisions for Montana's public DB pensions, including TRS
- TRS assumes all investment risk on your behalf
- TRS is not a **Defined Contribution (DC)** retirement plan or account, such as an IRA or a 401(k) plan. Here are some differences:
 - DC plan members must manage their own investments, and they bear all the risk of investing (*their DC accounts can lose value*)
 - In a DC plan, the contribution is known but the future benefit is unknown (*their benefits are not guaranteed*)
 - In a DC plan, members' benefits in retirement are limited by their account balance (*they could outlive their retirement savings*)



TRS MEMBERSHIP: Your responsibilities

- Notify TRS of significant life events
 - Marriage or divorce, name change, etc.
- Monitor your member contributions and creditable service
 - Read the **Annual Statement of Account** mailed each fall
- Review your beneficiaries and keep them up-to-date
- Plan ahead for retirement! It's important to understand:
 - TRS does not begin paying retirement benefits automatically when you stop teaching
 - There is a retirement application process with specific requirements



Use **My TRS** to keep track of your TRS membership



The **My TRS** secure online member portal allows you to:

- Update your mailing address and other contact information on file with TRS
- Review your account balances, contribution history, and service purchases
- View or print your most recent Annual Statement
- Run an estimate of your future retirement benefit, if vested
- Review **and update** your beneficiaries



Montana Teachers' Retirement System

ACTIVE MEMBERS
Benefit information and account access

BENEFIT RECIPIENTS
Handbook, forms and account access

EMPLOYERS
Account access for insurance, wages and contributions

Home
Active Members
Benefit Recipients
Employers
Site Index
About TRS
TRS Board
Contact TRS

Go to **trs.mt.gov**

My TRS Login link

Haven't set up your User ID and password yet?
Click the Login link for members, then create your user account

Popular Links
Member Login
Employer Login
Wages & Contributions
Insurance Deductions
Communication Archive
Active Member Handbook
Benefit Recipient Handbook
Horizons Newsletter
Fact Sheets
Rate & Salary Charts

TRS

Steps in the TRS retirement process

When will you be eligible to retire?

| REGULAR Retirement (Full Benefit) | | | |
|-----------------------------------|--------------------------------|---------------------------------------|------------------|
| Tier 1 membership | | Tier 2 membership (7/1/2013 or later) | |
| Age | Years of Service | Age | Years of Service |
| 60 | 5.00 | 60 | 5.00 |
| Any Age | 25.00 | 55 | 30.00 |
| Any Age | Service within 25 Fiscal Years | | |

| EARLY Retirement (Reduced Benefit) | | | |
|------------------------------------|------------------|---------------------------------------|------------------|
| Tier 1 membership | | Tier 2 membership (7/1/2013 or later) | |
| Age | Years of Service | Age | Years of Service |
| 50 | 5.00 | 55 | 5.00 |



Are you purchasing service – or planning to?

- *What is a service purchase?*
 - Eligible TRS members may purchase additional years of creditable service to increase their retirement benefit
- Common scenarios include:
 - Purchasing service credit for out-of-state or private teaching, military service, in-service leave, or break-in-service leave
 - Purchasing back previously withdrawn Montana TRS membership
 - Transfer service credit from Montana PERS
- Purchases **must** be completed before you terminate employment



Think you might be eligible? Contact a TRS Benefit Officer!
The earlier you start, the less it costs



Steps to complete in your last 2-3 years...

- Learn about the six TRS **benefit allowances** available to vested members
 - *You won't need to choose one until you actually retire*

2-3 YEARS
OUT



- Confirm your **employer's requirements** for notifying them of your intention to retire
 - Review your collective bargaining master agreement, if applicable



In your last 2-3 years... *(continued)*

- Get a preliminary **estimate of benefits**
 - You can use "My Benefit Estimator" in **My TRS**; or
 - You can submit TRS Form 112 *Request for Estimate of Benefits*; or
 - You can call TRS to schedule an appointment with a benefit officer
- To create an estimate, you'll need to provide the following:
 - Your anticipated retirement month and year
 - Your current annual earnings and any expected pay raises
 - Your estimated termination pay amount (ask your employer)
 - ***Termination pay will be discussed in more detail later***



AFC = Average Final Compensation

- If you are a **Tier 1 member**: Your AFC is based on your **three** highest consecutive years of allowable compensation
- If you are a **Tier 2 member**: Your AFC is based on your **five** highest consecutive years of allowable compensation



These do not have to be your last three or five consecutive years



Beware the 110% Cap Rule!

To prevent intentional salary spiking, state law requires TRS to cap each AFC year at 110% of the prior year's compensation*

**unless the increase was due to movement on an employer's adopted salary matrix*



Application of 110% cap due to salary increase

Common scenarios: A member takes a higher-paying position, works for multiple employers, or performs additional duties in the years that determine their AFC

EXAMPLE: For his final 3 years before retirement, this Tier 1 member accepted a higher-paying position in another school district

"Lookback"
year
4th year for Tier 1,
6th year for Tier 2

| Fiscal Year | Actual Salary | AFC year? (Tier 1 member) | Capped Salary Applied to Each AFC Year |
|-------------|------------------------|------------------------------|---|
| 2025 | \$90,100.67 | Yes | 110% of 2024 capped salary = \$87,698.26 |
| 2024 | \$84,200.00 | Yes | 110% of 2023 capped salary = \$79,725.69 |
| 2023 | \$79,066.50 | Yes | 110% of 2022 (lookback) salary = \$72,477.90 |
| 2022 | \$65,889.00 | | |
| 2021 | \$64,916.56 | | |
| 2020 | \$63,956.80 | | |
| 2019 | \$63,011.50 | | |



Calculating your benefit: Years of service and AFC

TRS uses the following formulas to calculate the annual benefit amount, which is paid to you in 12 equal monthly payments

- Remember: In a DB pension, your monthly benefit is **guaranteed for life**

Tiers
1 & 2

Years of Creditable Service × AFC × 1.6667%

Tier 2
Professional
option

Age 60+ with at least 30 years of service (*Tier 2 members only*):

Years of Creditable Service × AFC × 1.85%

Note: You may instead take your account balance as a lump-sum payment or do a direct rollover to a qualified plan – *but you forfeit the lifetime benefit*



Steps to complete in your final year

- Decide on your **retirement date**
- Then ask your employer for an updated estimate of your **termination pay** amount
- Create or request another **estimate of benefits** (EOB)
 - Do this before you submit any retirement paperwork to TRS
 - Pay attention to the termination pay options shown on EOB!
- Review the six TRS retirement benefit allowances and think about which one will best suit the needs of you and your family
 - **We'll describe the six allowances later in this presentation**

FINAL
YEAR!



Find out how much termination pay you'll receive

For TRS purposes, termination pay includes:

- Vacation pay, sick leave, and severance pay that will be paid at the time you terminate employment and retire, plus
- Payments that are contingent upon terminating employment and retiring (such as retirement incentives approved by TRS)

Termination pay does not include:

- Amounts that are not paid at the time of retirement
- Amounts that are not wages (such as health insurance premiums)
- Amounts payable to you from a deferred compensation plan
 - *as defined under Section 457(f) of Internal Revenue Code*



Why does TRS need to know about your termination pay?

- Because you can elect to have your employer report your termination pay to TRS – which would increase your AFC and your monthly benefit, for life!
- **CAVEAT:** If you make this election, you and your employer must pay contributions to TRS to fund that benefit increase
- TRS will include termination pay on your Estimate of Benefits to show the estimated benefit increase – and your estimated cost or out-of-pocket expense



Form 129, Termination Pay Irrevocable Election

- The least costly way to increase your benefit: Have your employer withhold member contributions from termination pay on a **tax-deferred basis**
- How? Both you and your employer sign TRS Form 129 **at least 90 calendar days** prior to your last day of work or PIR day (**IRS rule**)
 - *If less than 90 days, you may still make the election on an after-tax basis and pay all member contributions out of pocket*



Once Form 129 is signed, you cannot change your mind. **Get an estimate first!**



Montana Teachers' Retirement System
P.O. Box 200319, Helena, MT 59620-0319
406-444-3134 • 866-600-6045 • trsmt.gov

FORM 129: TERMINATION PAY IRREVOCABLE ELECTION

TRS Office Use Only

In compliance with the Americans with Disabilities Act of 1990, alternative accessible formats of this document will be provided upon request.

Before completing this form, read the requirements on Page 2 and in the enclosed Termination Pay Fact Sheet. It is your responsibility to complete and submit this form to TRS in conformity with your wishes regarding the use of termination pay. This form is void unless fully completed and signed by both you and your employer **at least 90 calendar days** prior to your termination of employment. Note: If you will use termination pay from multiple TRS employers, you must complete a separate form for each employer.

SECTION I: MEMBER INFORMATION

Full Name: First _____ Middle _____ Last _____ Suffix (jr, Sr, etc.) XXX - XX -
SSN (last 4 digits) _____

Maiden or Other Name Previously Reported to TRS _____ Month _____ Anticipated Retirement Date (This is not a commitment to retire on this date) _____

Mailing Address - Street or P.O. Box _____ City _____ State _____ ZIP Code (use ZIP+4 if known) _____ Telephone Number _____

Member must complete items A, B, and C. ▶

SECTION II: MEMBER'S ELECTION and CERTIFICATION

A. I certify that I have read and understand the **Termination Pay Fact Sheet**, and

B. I elect to use termination pay in the calculation of my benefit according to the option I marked in 'C'.

C. Choose one option: Termination Pay Option 1 Termination Pay Option 2

SIGNATURE. By my signature on this form, I direct my employer, at the time of my termination of employment and retirement, to report the total amount of my termination pay to the Montana Teachers' Retirement System (TRS) and to pick up and remit member contributions on the total termination pay amount to TRS on a tax-deferred basis to the extent the contributions can be withheld from my termination pay. I understand this election, once submitted to TRS, may not be recalled. I also understand that if I have elected Termination Pay Option 1 and my required member contributions exceed the amount available for employer pick-up, I must remit the remaining member contributions by personal check made payable to TRS.

MEMBER'S SIGNATURE – must be signed in the presence of a notary public

Signature _____ Date _____

TO BE COMPLETED BY THE NOTARY PUBLIC:

State of _____

County of _____

This instrument was signed or acknowledged before me on _____

By _____
(Print name of signer)

Notary Signature _____

Revised 2/4/2021
TRS FORM 129 (TRSF)
1 of 2

Form 129: Termination Pay Options

| If you elect: | It has the following effect: |
|-----------------------------|---|
| Term Pay OPTION 1 | TRS divides your total termination pay among <u>only</u> the 3 or 5 fiscal years that determine your AFC <ul style="list-style-type: none"> • This option provides the largest benefit increase at the highest cost • <i>See next slide for Option 1 cost illustrations</i> |
| Term Pay OPTION 2 | TRS divides your total termination pay among <u>all</u> fiscal years in which you earned service <ul style="list-style-type: none"> • This option provides a smaller benefit increase at a lower cost to you |
| Payout only (Option 3) | With this option, you take the cash! Termination pay is <u>not</u> reported to TRS and no contributions are due. <ul style="list-style-type: none"> • Your employer will withhold all taxes and net you a check |



Why do some members owe TRS money at retirement?

EXAMPLES: Each employee is retiring at age 60. Each elected Term Pay **Option 1** at least 90 calendar days out:

| Cost Illustrations (Option 1) | Employee #1 25 Years service credit | Employee #2 30 Years service credit | Employee #3 35 Years service credit |
|-------------------------------|--|--|--|
| Gross Term Pay Amount: | \$5,000.00 | \$5,000.00 | \$5,000.00 |
| Minus FICA/Medicare 7.65% | (\$382.50) | (\$382.50) | (\$382.50) |
| Net Term Pay Amount: | \$4,617.50 | \$4,617.50 | \$4,617.50 |
| Member Contributions Due: | (\$3,787.50) | (\$4,545.00) | (\$5,302.50) |
| Difference: | \$830.00 | \$72.50 | (\$685.00) |
| Benefit increase: | \$ 57.87 per month | \$ 69.45 per month | \$ 81.01 per month |
| Recovery time: | (N/A) | (N/A) | 8.5 months |

Contributions due exceed the net term pay amount. This member must pay the difference out of pocket

The employer writes a check to these members for the remainder (minus federal and state income tax)



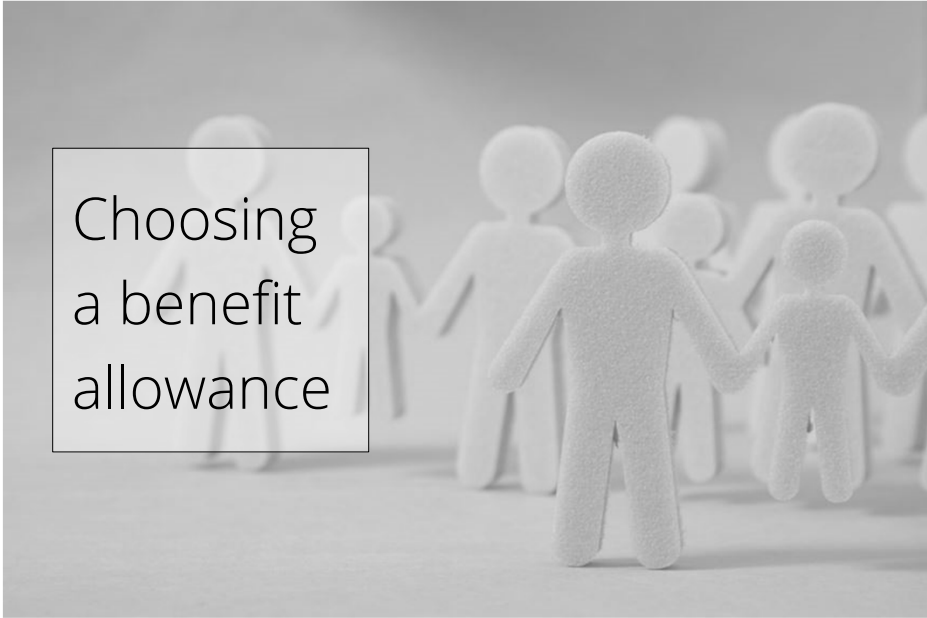
Steps to complete in your final 6 months

- Call TRS to request a **Retirement Application Packet**
 - TRS generally mails packets about 5 months prior to your intended retirement date
- Review the packet and **elect a retirement allowance**
 - *Once you begin receiving benefits, your election is locked in*
- Well in advance of your retirement date:
 - Complete all sections of the retirement application packet

FINAL 6 MONTHS

REMINDER: If you intend to use termination pay to increase your benefit, be sure you and your employer sign Form 129 *Termination Pay Irrevocable Election* at least **90** calendar days prior to your last day of work or PIR day





Choosing a benefit allowance

Normal Form retirement benefit allowance

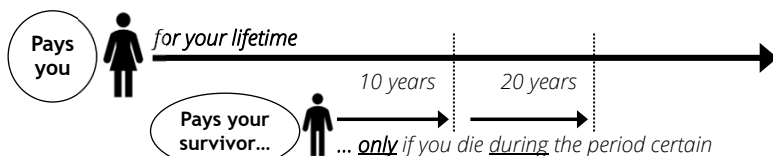
- The Normal Form life-only annuity pays you the largest monthly benefit
- This allowance pays for your lifetime only
- There is no continuing benefit to a survivor



Period Certain and Life retirement benefit allowance

Two options:

- **10-Year Certain and Life** (*you must be age 75 or younger to elect this*)
 - Pays benefits for your lifetime – and:
 - If you die within 10 years, your survivor receives your benefit for the remainder of the 10-year period
- **20-Year Certain and Life** (*you must be age 65 or younger to elect this*)
 - Pays benefits for your lifetime – and:
 - If you die within 20 years, your survivor receives your benefit for the remainder of the 20-year period



Joint and Survivor Annuity retirement benefit allowance

Benefits are paid for two lifetimes – yours, then your designated Joint Annuitant's after your death

Three options:

- **Option A:** Joint and Full* to Joint Annuitant (JA)
- **Option B:** Joint and One-Half* to Joint Annuitant
- **Option C:** Joint and Two-Thirds* to Joint Annuitant



*percentage of your monthly benefit to be paid to Joint Annuitant

What happens if your Joint Annuitant dies first, or if you divorce?

- Your benefit may revert to Normal Form (*this is called the "pop-up" provision*)
- Within 18 months of death or divorce, you may choose a new JA and a different option, if desired – or you may remain on Normal Form allowance



sample

sample

sample

MONTANA TEACHERS' RETIREMENT SYSTEM
ESTIMATED RETIREMENT BENEFITS

This is an estimate and is not to be construed as a firm commitment of an amount to be paid. When projections are made, many factors may affect the final retirement benefit, including future changes in law and/or administrative rules.

Name: SMITH, MARY A Retirement Date: 07/01/2025
SSN: xxx-xx-9990 Retirement Type: Regular

Beneficiary: SMITH, JOHN F

THIS ESTIMATE IS BASED ON THE FOLLOWING DATA:

Highest 3 Years Salary: Termination Pay: \$5,000.00
2024-25 \$66,500.00
2023-24 \$65,150.00
2022-23 \$64,350.00

Member's Birth Date: xx/xx/1965 Creditable Service Years: 30.00
Beneficiary's Birth Date: xx/xx/1961

| Allowance Description | Termination Pay Options | | |
|---|-------------------------|------------|------------|
| | Option 1 | Option 2 | Option 3 |
| Normal - Payable for the Member's Life Only | \$2,791.67 | \$2,729.17 | \$2,722.22 |
| A - Joint and Full to Joint Annuitant | \$2,619.70 | \$2,561.05 | \$2,554.53 |
| B - Joint and One Half to Joint Annuitant | \$2,702.89 | \$2,642.38 | \$2,635.65 |
| C - Joint and Two Thirds to Joint Annuitant | \$2,674.70 | \$2,614.82 | \$2,608.16 |
| 10 - Year Certain & Life | \$2,769.34 | \$2,707.34 | \$2,700.44 |
| 20 - Year Certain & Life | \$2,702.06 | \$2,641.56 | \$2,634.84 |

THE ABOVE ALLOWANCES WERE BASED ON THE FOLLOWING DATA:

| | | | |
|------------------------------|-------------|-------------|-------------|
| Average Final Compensation | \$67,000.00 | \$65,500.00 | \$65,333.33 |
| Termination Pay | \$5,000.00 | \$5,000.00 | |
| Less FICA/Medicare (7.65%) | 382.50 | | |
| Net Amount | \$4,617.50 | | |
| Member Cost of Option | \$4,545.00 | \$407.50 | |
| Your Out-Of-Pocket Expense | \$0.00 | | |
| Member Cost of Option | \$4,545.00 | \$407.50 | |
| Employer Cost of Option | \$6,660.00 | \$592.50 | |
| Increase Over Normal Benefit | \$69.45 | \$6.95 | |

This is only an estimate. The employer will calculate the out-of-pocket expense.

TRS law requires that, in order to be eligible for a retirement benefit, a member must terminate employment with all TRS covered employers in all positions reportable to TRS.

Current Employer: 990001 YOURTOWN PUBLIC SCHOOLS

Prepared By: Johnelle Sedlock

Date: August 27, 2024

How Do You Decide?



- TRS can help you prepare for retirement, but we can't choose the retirement allowance for you
- Involve your family to decide which option will best meet your current and future needs:
 - Think about whether anyone else might need your benefit after your death
 - Once you begin receiving monthly payments from TRS, you **cannot** choose a different allowance – except when the “pop-up” provision applies (see “Joint and Survivor Annuity” slide)
- We also recommend you consult a tax professional
 - TRS retirement benefits are taxable...



More about taxes

- The Estimate of Benefits shows **gross** monthly amounts
- TRS will withhold federal income tax by default
 - To have Montana tax withheld, you must complete a withholding form
 - Medicare and Social Security taxes do not apply (*retirement benefit payments are not wages*)
- You will be responsible for managing your annual tax liability
 - Federal and Montana tax withholding forms are available on the TRS website: trs.mt.gov



You can model different tax withholding scenarios in **My TRS!**

- *Before you retire:* Use the “My Benefit Estimator” tool
- *After you retire:* Use the “My Tax Withholding” tool



FINAL PREPARATIONS before retiring

- Make sure you've completed and submitted **all** required application materials to TRS, including forms that may require your employer's signature
 - **Note:** At this point, it's too late to sign TRS Form 129 *Termination Pay Irrevocable Election* for tax-deferred contributions
- If you have a service purchase in progress, pay it off
- Terminate **all** TRS-reportable positions – *see next slide*

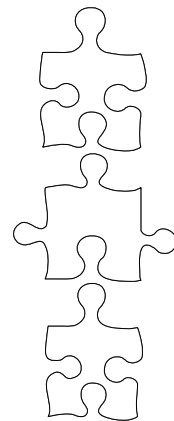
FINAL 3 MONTHS



To retire with TRS, you must terminate ALL TRS-reportable employment. This means:

- You must have submitted a **letter of resignation**;
- Your employer must **certify** your termination date; and
- Your **sick/annual leave balances** must have been paid out to you
 - *If you work for multiple TRS employers, the above steps apply to each of them*

Your retirement effective date = first day of month **after** your **last** certified date of termination with all TRS employers





As a TRS member, when do I attain “Retired” status with TRS?

- You are not retired until you **receive** your first monthly benefit
 - i.e., your bank account receives a direct deposit or you cash a paper check
- Be aware that benefits are paid on the **last business day** of the month
 - **EXAMPLE:** If your retirement effective date is July 1, your first payment will be issued at the **end** of July
- Guaranteed Annual Benefit Adjustment (**GABA**):
 - After receiving **at least 36** monthly benefit payments, you are eligible for a **GABA** increase each year, effective with your **January** benefit
 - *The percentage increase varies by membership tier*



Other
things to
know



What happens if you become disabled before you retire?

- You may be eligible to apply for **disability retirement** if:
 - you are an active, vested TRS member,
 - you have a disability that prevents you from doing your job, and
 - the disability is likely to be permanent.
 - *Note: Tier 2 members who are already eligible for regular retirement may not apply for disability retirement*
- The TRS Board reviews all disability retirement applications
 - This approval process is entirely separate from the Social Security Disability determination process



What happens if you pass away before you retire?

If you were not vested (*i.e., less than 5.00 years of creditable service with TRS*):

- TRS would distribute your member account balance to your designated beneficiary as a lump sum payment (divided equally, if multiple beneficiaries)

If you were **vested** with TRS at the time of your death:

- Your designated beneficiary/ies could choose either a monthly **survivor benefit** for life or a lump-sum distribution of your member account balance
- If you were an **active TRS member** within 1 year prior to death, TRS also pays:
 - A one-time \$500 **death benefit** to your designated beneficiary (divided equally, if you have multiple beneficiaries), and
 - A **minor child benefit** of \$200/month on behalf of each of your minor children through the month of their 18th birthday



Can you work while receiving TRS retirement benefits?

You may work outside Montana's public school system without restriction... but:

*If you want to return to work in **any** position covered by the retirement system, **your status as a retiree** will depend on full compliance with several requirements and restrictions!*

Here are just a few of those requirements:

- You must have a **break in service** (i.e., your employment relationship must be completely severed) for at least **120 calendar days**



Continued on next slide ▶



If you work in TRS-reportable employment as a retiree... *continued*

- Your employment must be reported to TRS on a monthly basis
- Annual earnings are limited to 49% of your AFC, or 49% of the median AFC (whichever is greater)
 - For details, read all related TRS Fact Sheets, including *“Terminating Employment and Retiring With TRS”* and *“Working After Retirement”*
 - Available on the Fact Sheets page of the TRS website: trs.mt.gov



This is a complex topic! Be sure to contact TRS before you agree to provide service as a retiree in any position covered by the retirement system, in any capacity – *even as a volunteer.*



QUESTIONS?

Your TRS Benefit Officers are:

| | |
|--------------------------------------|---------------------------------------|
| Johnelle Sedlock, Supervisor | (406) 444-4113 jsedlock@mt.gov |
| Jessie Hill, Benefit Officer | (406) 444-3091 Jessie.Hill@mt.gov |
| Sherry Smith, Benefit Officer | (406) 444-3324 Sherry.Smith@mt.gov |

Fax: (406) 444-2641

Mailing address: PO Box 200139, Helena MT 59620-0139

Office location: 100 North Park Avenue, Suite 110 in
downtown Helena

