

1. What choices do I have concerning my variable account balance when I apply for retirement benefits?

When you apply for PERS retirement benefits, you may elect to transfer your variable account balance into your regular account or to continue participation in the Variable Annuity Program. You make this election as part of your retirement application process by completing a Retiree's Variable Annuity Election form.

2. May I change my variable annuity election once my benefits begin?

You may change your variable annuity election anytime between your original election and within 60 days after the issue date on your first benefit payment. Once the 60 days has elapsed, you may make no changes to your variable annuity election.

3. May I continue to participate in the Variable Program if I choose a lump-sum settlement option at retirement?

No. If you elect a lump-sum settlement at retirement, your variable account balance is automatically transferred to your regular account. Your total member account will be distributed according to your lump-sum election.

4. What happens if I elect to transfer out of the Variable Program at retirement?

At retirement, interest will be credited to your regular account and earnings or losses will be credited to your variable account in the same manner whether you choose to remain in the Variable Program or transfer to the regular account.

Your variable account balance is then transferred to your regular account. Your regular account provides a fixed, unchanging annuity as part of your monthly retirement benefit. Your monthly

retirement benefit will change only as a result of any future cost-of-living adjustments or any changes due to future legislation.

5. What effect does my participation in the Variable Annuity Program have on my retirement benefit calculation?

PERS uses three retirement benefit calculation methods: Formula Plus Annuity (if you were a PERS member before August 21, 1981), Money Match, and Full Formula. Your retirement benefit will be the highest amount produced by comparing the results of these calculation methods. The Formula Plus Annuity and Money Match methods use your member account balance in the benefit calculation. Any increase or decrease in your member account due to your participation in the Variable Program results in an increased or decreased retirement benefit when calculated by either of these two methods.

The Full Formula method does not use your member account balance to calculate the benefit. However, the resulting benefit produced by this method is increased or decreased to reflect your participation in the Variable Program.

6. How is the Full Formula calculation method adjusted to reflect my participation in the Variable Program?

The Full Formula benefit calculation is increased or decreased based on the value of the variable contributions being higher or lower than the value of the same contributions had they been in the regular account.

The increase or decrease is calculated by comparing your variable account balance since January 1, 1982, to your effective retirement date with the regular account interest you would have received on these contributions if you had not chosen to participate in the variable account.

The difference between the contributions at variable rate amount and the contributions at regular rate amount is multiplied by an annuity factor based on your age at retirement. The result is added to or subtracted from the Refund Annuity Option benefit produced by the Full Formula calculation method. The adjustment will result in a reduction if the contributions at variable rate amount is less than the contributions at regular rate amount.

Example

(Refund Annuity Option):

\$ 10,500 contributions at variable rate
8,000 contributions at regular rate
\$ 2,500 net difference
x .00791 annuity factor (age 58)
\$ 19.78 monthly Full Formula variable increase

7. What happens to my monthly retirement benefit if I elect to stay in the Variable Annuity Program at retirement?

If you choose to remain in the Variable Annuity Program after retirement, the variable annuity portion of your retirement benefit will increase or decrease annually based on the performance of the variable fund from October 31 to the following October 31. Any increase or decrease to your variable annuity is effective January 1, payable beginning February 1.

8. Do the yearly variable fund earnings apply to my total monthly retirement benefit?

No. Your total monthly benefit payment will be changed only by the amount of the increase or decrease applied to the variable annuity portion of your benefit.

Your monthly benefit is made up of a fixed, unchanging pension from the Employer Reserve Account and an annuity from your

member account. An annuity is the monthly payment provided from the member account balance.

Part of this annuity is provided from your regular account balance. This is a fixed monthly payment. If you elect to stay in the Variable Annuity Program at retirement, your variable account will provide a variable annuity as part of your total monthly benefit. The variable annuity part of your benefit will change on an annual basis depending on the performance of the variable fund.

Example: This example assumes the benefit was calculated using the Money Match calculation method and 50 percent of the member's account was in variable. The variable annuity portion of a retirement benefit will vary based on the method used to calculate the retirement benefit and the amounts in the regular and variable accounts.

\$ 500 employer pension – fixed
\$ 250 regular annuity – fixed
\$ 250 variable annuity – portion of benefit that will change annually
\$1,000 total benefit at retirement

9. When is the variable fund evaluated for retirees?

For retirees, the variable fund earnings are evaluated annually based on the variable fund earnings or losses during a 12-month period ending October 31. The gross earnings rate is converted by PERS actuaries to a net rate of return based on the assumed interest rate that was used to calculate a retiree's retirement benefit.

During the first year of a member's retirement, the performance of the variable fund is measured from the effective date of

retirement to the following October 31.

10. Why are the gross earnings converted to a net rate of return?

At retirement, your benefit is calculated using your account balance and an annuity factor determined by your age, based on an assumed interest to be paid on your declining member account balance.

Your variable annuity will remain the same if the variable fund earns exactly the same as the assumed interest rate used to calculate your retirement benefit. If the fund earns more than the assumed interest rate, your variable annuity will increase in the following year; if it earns less, your variable annuity will decrease in the following year.

For members retiring on or after June 1, 1992, the assumed rate of return is 8 percent. For members who retired on or after January 1, 1978, but before June 1, 1992, the assumed rate of return was 7 percent. Members in the Variable Program who retired before January 1, 1978, had their benefits calculated with actuarial factors that assumed 5.5 percent interest would be earned in the future.

11. How is the annual increase or decrease in the variable annuity measured?

Units and unit values were established at the inception of the Variable Annuity Program to actuarially adjust the variable annuity each year. The variable portion of your benefit (measured in units) will be re-valued annually.

The PERS actuary assigns a number of units to the variable annuity portion of your benefit in January following your

effective retirement date. The number of units assigned does not change, but the value of the units changes on an annual basis. The value is determined based on the variable fund earnings or losses during the 12-month period ending October 31.

12. How are unit values calculated?

The formula used to determine the value of one unit is the prior year's unit value multiplied by the variable earnings factor (increase or decrease) from October 31 to October 31 divided by the assumed interest rate.

Example: For retirement dates on and after June 1, 1992, the assumed interest rate is 8 percent. The variable annuity unit value increased for 1999 because the 11.51 percent gross earnings for October 31, 1997, to October 31, 1998, was greater than the assumed interest rate of 8 percent. The unit value was set at \$10 as of June 1, 1992. It increased from \$16.0162 in 1999 to \$18.8752 for payments beginning February 1, 2000;

If a retirement benefit was assigned 10 units, the variable annuity effective January 1 and payable beginning February 1, 2000, would be \$188.75.

$$\begin{aligned} & \$ 16.0162 \text{ 10/31/98 unit value} \\ & \times 1.2728 \text{ (27.28 percent gross return factor)} \\ & \div 1.0800 \text{ (8 percent assumed interest rate factor)} \\ & = 18.8752 \text{ 10/31/99 unit value} \end{aligned}$$

13. How can I find out the number of variable units assigned to my retirement benefit if I choose to remain in the Variable Program?

Variable units are assigned in January for retirement benefits established through October 31 of the prior year. Write to PERS, Customer Service Center, PO Box 23700, Tigard, OR

97281-3700, to request the number of variable units assigned to your retirement benefit.

If you wish to see how the Variable Annuity Program has performed historically, please request the table of unit values from PERS.

Public Employees Retirement System

11410 SW 68th Parkway
Tigard, Oregon 97223
Customer Service Center 503-598-PERS
TTY 503-603-7766
Toll-free 888-320-7377

Mailing address

PERS
P.O. Box 23700
Tigard, OR 97281-3700

PERS Web site

www.pers.state.or.us

This Q&A is for general informational purposes only and is not intended to provide legal advice. If there is any conflict between this brochure and federal law, Oregon law, or administrative rules, the law an administrative rules shall prevail.

In compliance with the Americans with Disabilities Act, PERS will provide this document in an alternate format upon request. To request this, contact PERS at 888-320-7377 or TTY 503-603-7766.



Answers to your questions about
Variable Annuity for Retirees