

Answers to your questions about Lump-sum Settlement Options

1. What is a lump-sum settlement option?

In lump-sum settlement options, some or all of your benefit comes to you in a lump sum rather than in monthly payments.

A partial lump-sum settlement option allows eligible members to choose a retirement benefit consisting of a lump-sum refund of their member account balance plus a lifetime monthly pension from their employer's contributions.

Members can select a total (double) lump-sum option. This is a total distribution of the member's account balance plus a matching amount from employer reserves.

The following discussion of lump-sum settlements applies to both partial and total lump-sum options except discussion of monthly benefits, which applies only to partial lump-sum options.

2. Who is eligible for a lump-sum option?

At retirement, lump-sum options are available to all members except those receiving a disability retirement and/or those purchasing refunded time.

3. How do I elect a lump-sum option at retirement?

When you complete the Service Retirement Application, you will indicate which lump-sum option you choose and how you wish to receive your account balance.

If you elect to directly receive some or all of your lump-sum distribution, you will complete two W-4P tax withholding forms. On one, you will tell us what to withhold from your lump-sum distribution; on the other, what to withhold from your monthly benefit payment (see Q7).

4. May I change any of my decisions regarding a lump-sum option after I have submitted a Service Retirement Application?

Yes. You may change any elections you make regarding your retirement within 60 days of the date of your first benefit payment.

If you make changes that increase the amount of your payments, you will be paid the difference. If your changes reduce your payments, you will be invoiced accordingly.

5. How is my benefit calculated if I choose a partial lump-sum option?

If you elect a partial lump-sum option, your monthly benefit will be calculated using the Money Match method or the lump-sum formula, whichever is greater. The lump-sum formula is final average salary times creditable service times a

factor set by statute at 1 percent for general service employees and 1.35 percent for legislators, police officers, and firefighters.

6. What benefit payout options are available for my monthly payment if I elect a partial lump-sum settlement?

You may elect to receive your monthly payment under lump-sum options 1, 2, 2A, 3, or 3A. For detailed explanations of benefit options, see your *PERS Member's Handbook*.

7. How can I receive the lump-sum refund of my member account?

You can receive the lump sum in one to five consecutive, annual installments. Each year you tell PERS how you want the installment to be made. Some or all of each installment can be a direct transfer (rollover) to a traditional or Roth IRA or another eligible employer plan (see Q 14).

8. If I want my account distributed in consecutive, annual installments, how much must be distributed in each installment?

Each installment must be at least 1 percent of your account. Percentages must total 100 percent when the final installment is paid.

9. When will annual installments be paid?

If you elect more than one installment, the first payment will be made within 90 days of your effective retirement date.

Any additional installments will be paid on the first of the month on the anniversary of your first payment.

10. Does any remaining part of my member account earn interest?

If you retire on April 1, 2004, and after, interest on your account balance will be paid in accordance with new earnings crediting rules that will follow the statutory limits on Tier One regular account crediting. Accumulated interest will be paid with your final installment.

11. May I remain in the variable account if I elect a lump-sum option?

No. If you have dollars in the variable account and elect a lump-sum option at retirement, your variable account balance will automatically be transferred into your regular account.

12. Will I receive a cost-of-living adjustment if I elect a lump-sum option?

Under current legislation, an annual cost-of-living adjustment (COLA) of up to 2 percent is paid effective July 1 on all monthly benefit payments. The lump-sum payment will not receive a COLA.

13. Will I receive the tax remedy (HB 3349) increase if I elect a lump-sum option?

Your lump-sum and monthly payments will be increased for the tax remedy when eligible.

14. May I elect to roll over my lump-sum payment?

Yes. Federal regulations permit the direct transfer or rollover of both pre-tax and after-tax dollars to a traditional or Roth IRA or another eligible employer plan that accepts rollovers. Please note that special accounting rules apply to the rollover of after-tax dollars. The rules for rollovers are complex, and PERS recommends you seek advice from a qualified tax advisor or from the Internal Revenue Service before electing either the partial or the total lump-sum option.

15. How do I make arrangements for a direct transfer of some or all of each annual installment?

You will receive a Rollover Distribution Election form two months before each installment. You indicate on the form how you wish that installment to be disbursed.

16. May I elect to transfer my account to more than one institution?

No. You may make a direct transfer to only one institution. You may make arrangements with the receiving institution for further transfers.

You may also make a rollover yourself after receiving 80 percent of the amount not directly transferred. PERS is required to withhold 20 percent for federal taxes.

17. What are the tax ramifications of these choices?

There are no taxes and/or penalties on any money PERS directly transfers to a traditional or Roth IRA or other qualified retirement plan.

You may owe income taxes on taxable money paid to you. Federal regulations require PERS to withhold 20 percent from all lump-sum distributions. In addition, you may be liable for a 10 percent penalty for early withdrawal depending on your age. PERS recommends that you seek competent tax advice regarding the details of your individual situation or read IRS publications 524 and 575.

18. Should I take a lump-sum settlement or leave my member account with PERS?

PERS cannot answer this question for you, but we recommend you think about several issues as you look for an answer. People with investment products to sell will encourage you to withdraw your member account and invest in their product. As you consider this option, we suggest you also consider the following:

a. What is your risk tolerance?

PERS provides a guaranteed, lifetime income to the member that includes an annual COLA of 2 percent. Investments in the private sector, except for lifetime

annuities, last as long as the principal and interest. Some private investments will probably earn more than PERS would pay over your lifetime, some will earn less. How willing are you to bet that your private investment will return more than you would receive from PERS?

Fewer than half of active PERS members allocate any of their contributions to the variable account, which is managed by the Oregon Investment Council and has historically outperformed the regular account. Some of these members, however, are willing at retirement to either manage their own investments or allow them to be managed by a financial planner. This naturally raises the question, is it better to risk your investments during your earning years or during your retirement years?

b. What other resources are available to you?

Individuals who will have large retirement incomes other than their PERS benefits may be more likely to accept the risk of the lump-sum settlement. For the majority of PERS members, their PERS benefits represent the largest portion of their retirement income. The risk of personal investing is obviously less if the money invested is not necessary for food, housing, medical care, or other necessities.

c. How much flexibility do you demand in your long-term investment?

PERS provides a guaranteed income but with very limited flexibility after 60 days from the first benefit payment. For most benefit options, from that time forward the beneficiary and payment method cannot be changed. Private sector investments generally provide more flexibility. Other than risk, the price for that flexibility is the need to regularly monitor your investment. What is exciting at retirement may or may not be exciting at age 80 or to a beneficiary.

Only you know how much risk you can accept, how astute you are in investing, how much other income you will have, and how much flexibility you demand. In the interests of your future financial security, PERS hopes you will be cautious and thorough in your decision on how to receive your PERS benefits.

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