



Deferred Retirement

Information for:
 Public Employees' Retirement System (PERS)
 Teachers' Pension and Annuity Fund (TPAF)
 Police and Firemen's Retirement System (PFRS)
 State Police Retirement System (SPRS)

INTRODUCTION

Deferred Retirement is available if you have at least 10 years of service credit upon terminating employment, but do not yet meet the retirement age requirement set forth by the State-administered retirement systems. You will begin receiving a retirement allowance on the first of the month after attaining retirement age only if a retirement application has been filed with the New Jersey Division of Pensions & Benefits (NJDPB).

You must file an online application for retirement via the Member Benefits Online System (MBOS). To register for MBOS, visit our website at www.nj.gov/treasury/pensions

You can apply for a Deferred Retirement when you terminate covered employment or any time prior to attaining the retirement age requirement. Under no circumstances can a Deferred Retirement become effective prior to the date the application is received by the NJDPB.

If a member is removed from employment for cause, the member may be ineligible for Deferred Retirement.

PERS AND TPAF MEMBERS

Public Employees Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) members that do not file a Deferred Retirement application before normal retirement age will only be permitted to file for the Maximum Option from the retirement system. The Maximum Option, also called a

single-life annuity, is the highest amount payable and provides a retirement benefit to you for the remainder of your life. Upon your death, benefits end and your survivors do not receive a pension allowance.

Under the provisions of the Internal Revenue Code (IRC) 409(a)(9), you are required to start receiving benefits no later than April 1st of the calendar year following the calendar year in which you attain age 70 1/2 (if born before July 1, 1949) or age 72 (if born on or after July 1, 1949). The NJDPB will make every reasonable effort to notify you with instruction on how to either collect your retirement benefit or return your pension contributions in a lump sum (see the "Required Minimum Distribution" section).

There are different enrollment and retirement criteria for PERS and TPAF members based on their enrollment dates. These differences, referred to as Membership Tiers, are defined as follows:

- **Membership Tier 1** — Members who were enrolled prior to July 1, 2007;
- **Membership Tier 2** — Members who were enrolled on or after July 1, 2007, and prior to November 2, 2008;
- **Membership Tier 3** — Members who were enrolled on or after November 2, 2008, and on or before May 21, 2010;
- **Membership Tier 4** — Members who were enrolled after May 21, 2010 and before June 28, 2011; and

- **Membership Tier 5** — Members enrolled on or after June 28, 2011.

The retirement age requirement for PERS and TPAF members is age 60 for Tier 1 and Tier 2 members, age 62 for Tier 3 and Tier 4 members, and age 65 for Tier 5 members. Therefore, your Deferred Retirement date is the first of the month following your 60th, 62nd, or 65th birthday depending on your membership tier. Your retirement allowance is based on the Service Retirement formulas shown below:

The formula to calculate the maximum annual pension for Tier 1, Tier 2, and Tier 3 is:

$$\frac{\text{Years of Service}}{55} \times \text{Final Average Salary} = \text{Annual Retirement Allowance}$$

The formula to calculate the maximum annual pension for Tier 4 and Tier 5 is:

$$\frac{\text{Years of Service}}{60} \times \text{Final Average Salary} = \text{Annual Retirement Allowance}$$

Years of Service means the years and months of pension service credited to your account.

Final Average Salary for Tier 1, Tier 2, and Tier 3 members means the average salary for the three years immediately preceding your retirement (30 months for employees with 10-month contracts). If your last three years are not your highest years of salary, your allowance will be calculated using your three highest fiscal years (July 1st - June 30th) of salary.

For Tier 4 and Tier 5 members, Final Average Salary means the average salary for the five years immediately preceding your retirement (50 months for employees with 10-month contracts). If your last five years are not your highest years of salary, your allowance will be calculated using your five highest fiscal years (July 1st - June 30th) of salary.

Note: If your last years of salary are not your highest years, you must indicate your highest years on the retirement application.

PFRS AND SPRS MEMBERS

Retirement age for members of the Police and Firemen's Retirement System (PFRS) and State Police Retirement System (SPRS) is 55. Therefore, if you terminate employment prior to your retirement age, your retirement allowance will begin the first of the month following your 55th birthday. The retirement allowance is equal to two percent of your Final Compensation for each year of service (up to 25 years for SPRS members). For example, a member who terminates employment after 11 years with a Final Compensation of \$35,000 will receive 22 percent of \$35,000, for an annual retirement allowance of \$7,700.

For members enrolled on or before May 21, 2010, Final Compensation means the base salary on which pension contributions are taken for the 12 months immediately preceding your termination of employment.

For members enrolled after May 21, 2010, Final Compensation means the average of the last three years base salary or highest three fiscal years base salary on which pension contributions are based.

For PFRS members, Final Compensation does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

For SPRS members, Final Compensation includes the value of maintenance allowance for the same period.

SURVIVOR BENEFITS

In the event of your death, between the time you terminate employment and your retirement becomes effective, the last named beneficiary will receive the return of your pension contributions. There is no other death benefit under these circumstances.

For more information about survivor's benefits once your retirement goes into effect see the *Pension Options (PERS and TPAF), Applying for Retirement (PFRS), or Applying for Retirement (SPRS) Fact Sheets*.

Group Life Insurance

If you had group life insurance through your employer at the time you terminated employment, when your Deferred Retirement becomes effective:

- PERS members will have a paid-in-full death benefit equal to $3/16 \times$ Final Salary;
- TPAF members who did not participate in contributory insurance will have a paid-in-full death benefit equal to $3/16 \times$ Final Salary or highest 10- or 12-month salary while those who did participate in contributory insurance will have a paid-in-full death benefit equal to $7/16 \times$ Final Salary or highest 10- or 12-month salary;
- PFRS and SPRS members will have a paid-in-full death benefit equal to 50 percent of their final salary.

Your group life insurance coverage is not in effect between the time you terminate employment and when your Deferred Retirement becomes effective. If you wish to convert your coverage to an individual policy, see the *Conversion of Group Life Insurance Fact Sheet*.

HEALTH BENEFITS

Members electing Deferred Retirement cannot transfer their active health care coverage to the retired

group of the State Health Benefits Program (SHBP) or School Employees' Health Benefit Program (SEHBP). This does not include members of the TPAF who elect to defer retirement with 25 or more years of service credit in the pension fund, or school board or county college employees with 25 or more years of service credit in the PERS.

Note: You may be eligible for up to 18 months of health benefits coverage because of federal COBRA legislation if you were covered by the SHBP or SEHBP just prior to terminating employment. If your Deferred Retirement allowance begins while the 18 months of COBRA coverage is in effect, you may be eligible to continue coverage with one of the retiree health benefit programs administered by the State. If the 18 months of COBRA coverage ends before the retirement commences, you are not entitled to maintain health coverage through the SHBP or SEHBP at retirement.

RETURNING TO PUBLIC EMPLOYMENT IN NEW JERSEY

Most private employment will not affect your retirement benefits. If, prior to your Deferred Retirement date, you return to a position covered by the same retirement system within 24 months of terminating previous employment, you can cancel your retirement and resume contributing to your previous account in the retirement system.

If, prior to your effective retirement date, you return to public employment following a break in service of more than 24 months, you will be enrolled in a new account under the membership tier that is in effect at the time of reemployment regardless of any prior retirement system membership, even if you are vested in a former account.

If you cancel your Deferred Retirement and are ready to retire or leave employment again at a later date, you must submit a new application via MBOS.

OUTSTANDING LOAN BALANCES

If you have an outstanding loan balance at the time you defer your retirement, you can repay the outstanding loan balance in its entirety. However, if you are unable to repay your outstanding loan balance prior to separation from employment, you will be offered the following repayment options:

- Repay the loan in monthly installments to the NJDPB through personal billing. If your retirement becomes effective and you begin receiving retirement checks prior to paying off your loan, the payment toward your outstanding loan balance will then be deducted from monthly retirement checks (provided your retirement allowance has sufficient funds for the monthly payment). The monthly loan payment will be calculated to have the loan plus interest satisfied by your five-year end date (see the *Loans* Fact Sheet for details); or
- Take a taxable distribution on the balance of the loan. In accordance with IRC 72(p) regulations, failure to remit loan payments will result in declaring the remaining amount as a taxable distribution and subsequently may also be subject to additional IRS regulations. If your loan is deemed a taxable distribution, a *Form 1099* will be forwarded to your address and it will be your responsibility to make a payment to the IRS to cover your tax liability. In addition, if you are under age 59½, you will be required to pay an additional 10 percent tax for taking an early pension distribution. A distribution does not cancel the outstanding loan balance and interest will continue to accrue. Upon your effective retirement date, the loan payment will resume and be deducted from your retirement check.

ARREARS BALANCES

If you have an outstanding arrears (purchase) balance, and you have not had installment payments made toward that balance for two years due to inactivity in the account, the NJDPB will cancel the remainder of the purchase and provide you with prorated credit for the service purchased to the date the installment payments ceased. You may also pay the arrears in full within 60 days of NJDPB notice. If the cancellation of this purchase brings your total service credit under 10 years, you will not be eligible for a Deferred Retirement.

For a member who had authorized a purchase of service credit prior to September 8, 2008, and is not being paid by the employer, the purchase shall remain outstanding but the purchase balance shall include additional regular interest beginning September 8, 2010, or on the date salary stopped, whichever is later.

WITHDRAWING YOUR CONTRIBUTIONS

At any time before your Deferred Retirement becomes effective, you may change your mind and apply for a return of your contributions instead. Once you cancel your Deferred Retirement and withdraw your contributions, all rights and privileges of membership end.

REQUIRED MINIMUM DISTRIBUTION

Under the provisions of IRC 409(a)(9), you are required to start receiving benefits no later than April 1st of the calendar year following the calendar year in which you attain age 70 1/2 (if born before July 1, 1949) or age 72 (if born on or after July 1, 1949). These payments may either be in the form of a monthly retirement benefit, or the return of your pension contributions in a lump sum. You must take action prior to April 1st in order to avoid the 50 percent excise tax applicable under the provisions of this code for failure to take a distribution. Members

who select to receive a retirement benefit and have attained age 70 1/2 or age 72 are only eligible to receive the Maximum Option pension benefit. This benefit payment continues for your lifetime. In the event of your death, there are no survivor benefits payable other than the return of any unused pension contributions. A delay in filing a retirement application will result in a later retirement date, and no retroactive benefits will be paid.

Members also have the option to have their pension contributions returned in a lump sum. You will receive only the money you contributed, and no partial withdrawal is permitted. In accordance with federal law, income tax must be withheld on certain pension distributions that produce an annual taxable income of \$200 or more, unless the taxable amount is directly rolled over into an individual retirement account or a new employer's retirement plan. If you request a return of your pension contributions in a lump sum, you are waiving all rights and privileges you may have to a retirement benefit.

Members should take action by either selecting a retirement benefit or requesting a return of their pension contributions. An online *Retirement Application* or *Application for Withdrawal* must be completed and filed with the NJDPB via MBOS (for registration information, see the "Introduction" section).

POINTS TO PONDER

- If you move after you defer your retirement, be sure to provide the NJDPB with your new address.
- Members of the PERS or TPAF may change their retirement option selection and/or beneficiary(ies) up to 30 days after their retirement date.
- The beneficiaries for your retired group life insurance may be changed at any time.
- Unlike Social Security, delaying the filing of your retirement application will not increase the

amount of your retirement allowance.

AVAILABLE FACT SHEETS

The Fact Sheets mentioned in this publication can be viewed and printed from the NJDPB website at:

www.nj.gov/treasury/pensions

- *Pension Options (PERS & TPAF)*
- *Applying for Retirement (PFRS)*
- *Applying for Retirement (SPRS)*
- *Health Benefits Coverage — Enrolling as a Retiree*
- *Conversion of Group Life Insurance*
- *Loans*

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