

Police
Retirement
System of Kansas
City, Missouri

KCPERS

Pre-Retirement Planning

www.kcpers.org

Overview and Disclaimer

The basic information offered today will apply to Tier 1 members of the Police Retirement System who became members of the System prior to August 28, 2013.

The purpose of this seminar is to give you a basic understanding of KCPERS benefits, allowing you to make an informed decision about your retirement.

However, for specific questions, please contact Jenn or Lisa in the Retirement Systems Office.

Many different rules and laws apply, and there may be exceptions. So please consider the information received today as reliable, but not necessarily applicable in every situation.

If there is any difference between the information provided in this handout and the law and policies that govern the Retirement System, the law and policies will prevail.

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Defined Benefit Plan

- Fifteen years of creditable service are required for you to become “vested” and eligible for a retirement benefit once you meet the age requirements.
- Your benefit is calculated using a three part formula (average annual compensation, multiplier and creditable service).
- Benefits are payable for your lifetime.

Retirement Funding

The staff, under the direction of the Board of the Police Retirement System of Kansas City, MO, administers your retirement, according to the Missouri Revised Statutes, as a defined benefit plan.

The members of the Police Retirement System of Kansas City, MO currently contribute at a rate of 11.55% of their base salary.

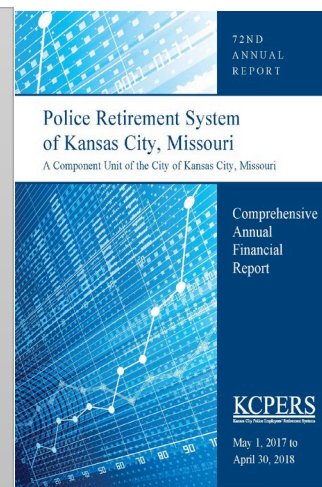
Annually, an actuarial valuation is performed that establishes a contribution rate for the next fiscal year. The contribution rate is set as a percentage of payroll and calculated to cover the system’s financial obligations. The employer contribution rate is based on a number of factors including the current level of benefits; how many members are in the plan; current and expected future pay levels; the age, service and life expectancy of the members; expected earnings on investments; and the plan’s unfunded liability. The employer contribution rate for fiscal year ending April 30, 2023 is 36.26% of projected payroll.

To find out more about how your retirement system is funded, consult the Police Retirement Systems’ Annual Report.

It Includes:

- Financial Statements
- Investment Information
- Actuarial Information
- Statistical Information

It is published annually and can be found at www.kcpers.org in the Publications section. Financial and Actuarial reports can also be accessed there.



Eligibility

A tier 1 member is eligible to retire:

- After completing 25 or more years of creditable service.
- At age 55 with 15 or more years of creditable service.
- At age 60 with 10 or more years of creditable service.

Benefit Formula

The formula for calculating your pension benefit is:

(Average Annual Compensation x Multiplier x Years of Creditable Service) = Annual Benefit.

- **Average Annual Compensation (AAC)** - the average of a Tier 1 member's highest 24 months of base salary history. (Does not include overtime, education or other types of pay).
- **Multiplier** – The multiplier established by legislation, currently 2.5%.
- **Creditable Service** – Years, months and days of service earned or purchased.

<i>AAC</i>		<i>Multiplier</i>		<i>Creditable Service</i>		<i>Annual Benefit</i>
<i>\$84,440</i>	<i>x</i>	<i>2.5%</i>	<i>x</i>	<i>27 Year</i>	<i>=</i>	<i>\$56,997 or</i> <i>\$4,749.75 monthly</i>

Supplemental Benefit – All retired Tier 1 members and eligible surviving spouses receive a supplemental benefit in addition to their monthly pension, currently in the amount of \$420.00.

Cost of Living Increase – All retired Tier 1 members, who were retired by December 31st of the previous calendar year, are eligible for any cost of living increase (up to 3%) that is granted by the Retirement Board in the current calendar year. These cost of living increases are not guaranteed annually and amounts will vary. Cost of living increases are calculated off the base pension, as a simple COLA and are not compounded.

Benefit Payment Options – Partial Lump Sum Option Payment (PLOP)

Tier 1 members who work one or more years past their 25 year eligibility date have the option to elect to take a portion of their retirement in a lump sum payment.

Members with:

- 26 or more years of creditable service may elect a lump sum equal to twelve times their initial monthly benefit.
- 27 or more years of creditable service may elect a lump sum equal to twenty-four times their initial monthly benefit.
- 28 or more years of creditable service may elect a lump sum equal to thirty-six times their initial monthly benefit.

When a member elects this partial lump sum option, their normal monthly pension benefit will be actuarially reduced to reflect the PLOP payment. The monthly reduction due to the PLOP payment is a **lifetime reduction**.

There are three options that a member can elect for the distribution of a PLOP payment:

- **Cash Option** – The distribution will be paid directly to the member at the same time as their first monthly benefit payment. A mandatory 20% will be withheld for federal taxes. The retirement system is not required to withhold Missouri income tax, however you may elect to have Missouri taxes withheld from the lump sum distribution, as it will likely be taxable as Missouri income. If the member is under the age of 50, in the year that they separate from service, then the distribution may also be subject to an additional 10% federal tax penalty for early distribution from a qualified retirement plan.
- **Rollover Option** – If the member elects a rollover, the payment will be made directly to a traditional Individual Retirement Account (IRA) or another qualified retirement plan (i.e. Deferred Compensation, 403(b), 401(k), etc.) that agrees to accept the rollover. The taxable portion of the distribution will not be taxed in the year of the rollover and no income tax will be withheld. The payment will be taxed when it is taken out of the IRA or other qualified plan. A rollover may possibly eliminate the additional 10% tax penalty on the lump sum distribution.
- **Combination Cash and Rollover Option** – The member may specify the amount of the distribution that will be rolled over into an IRA or qualified plan. The balance will be paid directly to the member and will be subject to the 20% tax withholding and may also be subject to the 10% federal tax penalty for early distribution from a qualified retirement plan.

Example of a PLOP Calculation

The PLOP examples used in this presentation will be based on a married Police Officer, who is age 55 and has 28.5 years of creditable service. Average annual compensation is \$84,440.

Using the benefit calculation formula, the officer would have an unreduced monthly base pension of \$5,013.63.

Gross PLOP Formula – *(Monthly Base Pension x Months of PLOP Election) = Gross PLOP Amount*

12 Month Gross PLOP Calculation - (\$5,013.63 x 12 months) = \$60,163.56

24 Month Gross PLOP Calculation - (\$5,013.63 x 24 months) = \$120,327.12

36 Month Gross PLOP Calculation - (\$5,013.63 x 36 months) = \$180,490.68

The lifetime PLOP reduction to a member’s monthly pension is calculated based on a variety of factors, including age at the benefit calculation date and marital status at the time of retirement. The Retirement System’s actuaries provide the factors that are applied to a member’s initial base pension to determine what the reduction will be. It is not a flat calculation and varies by individual.

Monthly Lifetime PLOP Reduction Example

	<i>No PLOP</i>	<i>12 Month PLOP</i>	<i>24 Month PLOP</i>	<i>36 Month PLOP</i>
<i>Base Pension</i>	\$5,013.63	\$5,013.63	\$5,013.63	\$5,013.63
<i>PLOP Reduction</i>	<u>0.00</u>	<u>(\$306.23)</u>	<u>(\$612.47)</u>	<u>(\$918.70)</u>
<i>Reduced Base Pension</i>	\$5,013.63	\$4,707.40	\$4,401.16	\$4,094.93

If a member is eligible for a PLOP and is interested in considering this option, they should contact the retirement office at least 90 days prior to their intended retirement date to request a personal PLOP estimate.

Benefit Deductions

A member may have the following items deducted directly from their pension payment:

- Federal Tax Withholdings
- State Tax Withholdings
- Insurance Elections (only for department sponsored insurance plans –Health, Dental, Life and Vision)
- Greater KC Public Safety Credit Union Deductions (set up through the Credit Union)
- Court Ordered Family Support Payments
- Tax Levy Payments

A member's pension is taxable at the Federal and State levels. It is not subject to the Kansas City Earnings Tax or Medicare. While the Retirement System staff are able to review estimated tax withholdings with members, based on the level of withholding the member wants to elect, we are not able to give personal tax advice. We encourage our members to discuss their tax situation with a tax professional in order to determine the level of withholding that is best for them.

Retirement Timeline

Guidelines for the Retirement Process:

When applying for retirement, members should allow themselves ample time to work their way through the retirement process, as they will receive a great deal of information during this time.

It is recommended that a member contact the retirement office approximately 90 days prior to their desired retirement. This allows the Retirement System to assist members with electing the most beneficial retirement date for the member's situation. It also allows for the member to get information regarding their pension, review potential tax and insurance deductions.

Effective Retirement Date* The effective retirement date is always the day following a member's Last Day on Payroll	Pension Effective Date The date that a member becomes entitled to a pension	First Monthly Pension Payment Payments are always the last business day of the month (on or before the last calendar day)
January 1-31	February 1	February 28**
February 1-28	March 1	March 31
March 1-31	April 1	April 30
April 1-30	May 1	May 31
May 1-31	June 1	June 30
June 1-30	July 1	July 31
July 1-31	August 1	August 31
August 1-31	September 1	September 30
September 1-30	October 1	October 31
October 1-31	November 1	November 30
November 1-30	December 1	December 31
December 1-31	January 1	January 31

*Effective retirement dates towards the end of a month may cause a member's first payment to be delayed an additional month, depending on when payroll is processed and when the pension processing deadline is for that month. It is best to contact the Retirement System to discuss dates, to ensure the date chosen allows for the pension to be processed in the effective month.

**February payments could fall on the 29th

Retirement Timeline Continued

Once a member decides on an effective retirement date, they would need to schedule an appointment with Personnel Records to officially begin the retirement process. It is recommended that a member contact Personnel Records 30-60 days prior to their chosen effective retirement date.

Retirement System Sign-out Process and Documentation

After a member has met with Personnel Records and obtained their separation clearance form, they will want to call and schedule an appointment with the Retirement System to complete their pension paperwork. Promptly scheduling an appointment is encouraged to ensure that staff will be available to assist the member at a convenient time for the member. A retirement check-out appointment generally lasts between 30 minutes to an hour. During this appointment we will fill out:

- **Retiree Information Form** – This form provides the Retirement System with a member's current contact information, spousal information and additional beneficiary information.
- **Tax Withholding Forms** – These are the forms that direct the Retirement System on how a member wants to have Federal and State taxes withheld from their monthly pension payment.
- **Electronic Deposit Authorization** – This form authorizes the Retirement System to direct deposit pension funds to an account specified by the member. A voided check or ACH letter from the member's bank is required to complete this form. The Retirement System is a separate entity from the Police Department and as such, does not have access to the Police Department's Payroll Records and is unable to attain your banking information from them.
- **PLOP Election Paperwork** – These forms are required for any member who is eligible and has chosen to elect a PLOP. They include the Distribution Election Form, where a member elects a cash or rollover option. If cash is elected, the member must fill out an additional Electronic Deposit Authorization form and provide a check or ACH letter for that account. If a rollover is elected, the member will have the accepting financial institution fill out an acceptance of fiduciary responsibility form or provide an appropriate letter of acceptance for the roll over funds and return that to the retirement office.

Documents to Bring to your Retirement System Appointment

Every Member:

- A voided check or ACH letter from your bank for your direct deposit.
- Completed Federal W4-P form

Married Members:

- A copy of your spouse's photo ID (typically a driver's license)
- A copy of your spouse's Social Security card
- A copy of your Marriage Certificate.

The Retirement System requests that all spousal documentation be provided at this appointment, so that an eligible surviving spouse may be set up for future spousal benefits.

Death after Retirement

Upon a member's death:

- If the member has an eligible surviving spouse (someone they were married to at the time of retirement and continuously married to until the time of death), they will be eligible for a lifetime spousal benefit of 80% of the pension the member was receiving at the time of death. In addition to the spousal pension, they will also be eligible for any supplemental benefit that is being paid at that time.
- If the member does not have an eligible surviving spouse, any remaining amount due will be paid to the beneficiary that is named on the most recent retiree information form the Retirement System has on file. Please remember to keep beneficiary information up to date. If there is not a beneficiary named, no payment will be made.

Contact Information

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