Variable Account at Retirement for Tier One/Tier Two Members: Questions and Answers

Question 1. What effect does my participation in the Variable Annuity Program have on my benefit calculation at retirement?
Answer. PERS uses three retirement benefit calculation methods: Money Match, Full Formula, and Formula Plus Annuity (if you were a PERS member before August 21, 1981).

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 calculating the benefit methods at retirement.

For specific examples please see Questions 12 and 13.

Q2. What choices do I have concerning my variable account balance when I retire?
A. When you apply for PERS retirement benefits, you may elect to transfer your variable account balance into your regular account or to continue participating in the Variable Annuity Program. You make this election as part of your retirement application process by completing a Variable Election: Retiring Members form. If you elect a lump-sum option, your variable account balance is automatically combined with your regular account.

Q3. What happens if I elect to transfer out of the Variable Program at retirement?
A. Earnings or losses will be credited to your variable account as of your effective retirement date.

Your variable account balance is then transferred to your regular account. Any increase or decrease in your variable account compared to what those contributions would have earned in the regular account is incorporated into your retirement benefit calculation. Your regular account provides a fixed annuity as part of your monthly retirement benefit.

Q4. Can I change my variable election once my benefits begin?
A. You may change your variable election up to 60 days after the issue date on your first actual benefit payment. Once the 60 days has elapsed, you cannot make changes to your variable election.

Q5. What happens to my monthly retirement benefit if I elect to stay in the Variable Annuity Program at retirement?
A. 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.

Q6. Do the yearly variable fund earnings apply to my total monthly retirement benefit if I stay in the Variable Annuity Program?
A. No. Your total monthly benefit payment will change only by the amount of the increase or decrease applied to the variable annuity portion of your benefit.

Part of your monthly payment comes from an annuity based on your regular account balance. Another part comes from a pension funded by your employer(s). These amounts are fixed portions of your monthly payment. The variable annuity part of your benefit will change on an annual basis depending on the performance of the variable fund.

Example:

$ 525 employer pension – fixed
$ 300 regular annuity – fixed
$ 200 variable annuity – portion of benefit that will change annually
$1,025 total benefit at retirement

Q7. When is the variable fund evaluated for retirees?
A. For retirees, variable fund earnings or losses are evaluated annually for the 12-month period ending October 31. The PERS actuary converts the gross earnings rate 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.

Q8. Why are the gross earnings converted to a net rate of return?
A. At retirement, your benefit is calculated using your account balance and an annuity factor determined by your age, based on an assumed interest rate 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. For members in the Variable Program who retired before January 1, 1978, the assumed rate was 5.5 percent.

Q9. How is the annual increase or decrease in the variable annuity measured?
A. 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 based on the variable fund earnings or losses during the 12-month period ending October 31.

Q10. How are unit values calculated?
A. 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: The assumed interest rate is 8 percent. The variable annuity unit value increased for 2006 because the 17.83 percent variable earnings for October 31, 2005, to October 31, 2006, was greater than the assumed interest rate of 8 percent. The unit value increased from $14.3715 in 2006 to $15.6796 for payments beginning February 1, 2007.

$ 14.3715 (10/31/06 unit value)
x   1.1783 (17.83 percent gross return factor)

÷ 1.0800 (8 percent assumed interest rate factor)
= 15.6796 (10/31/07 unit value)

If the variable annuity portion of a retirement benefit was assigned 10 units, the variable annuity effective January 1 and payable beginning February 1, 2007, would increase from $143.72 to $156.80.

Q11. How can I find out the number of variable units assigned to my retirement benefit if I choose to remain in the Variable Program?
A. 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.

Q12. How is the Full Formula retirement calculation method affected at retirement if I participate in the Variable Program?
A. 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 at your effective retirement date with the amount your variable contributions would have been worth if they had been in the regular account..

The difference between your contributions at the variable rate amount (Var-Var) and your contributions at the regular rate amount (Var-Reg) is multiplied by an annuity factor based on your age at retirement. The result is added to or subtracted from the Refund Annuity (RA) option benefit that the Full Formula calculation method produces. The adjustment will result in a reduction if the contributions at the variable rate earned less than the contributions would have earned at the regular rate.

Example Full Formula Variable adjustment:

Total Var-Var	$10,596.37
Total Var-Reg	-15,490.53
Difference	-$ 4,894.16
Annuity factor	× .00821
Variable adjustment	**$ 40.18**

Full Formula calculation:

Monthly final average salary	5,647.63	
General service statutory factor	x .0167	
		94.32
Years of service	x 24	
	2,263.57	
Variable adjustment	**- 40.18**	
Total Full Formula benefit	2,223.39	

Q13. How is the Money Match retirement calculation method affected at retirement if I participate in the Variable Program?

A. This variable adjustment is applied to the employer match since the employer pension is based on matching the variable contributions at the regular account earnings rate. The difference between the contributions at the regular rate (Var-Reg) and the contributions at the variable rate (Var-Var) is multiplied by the Option 1 factor to determine the variable adjustment.

Example Money Match Variable adjustment:

Total Var-Reg	$15,490.53
Total Var-Var	10,596.37
Difference	$ 4,894.16
Annuity factor	× .00891
Variable adjustment	**43.61**

Money Match Option 1 calculation:

Regular and Variable account balance		$108,370.67
Annuity factor		× .00891
Regular and Variable annuity		965.58
Employer match	$ 965.58	
Variable Adjustment	**+ 43.61**	
Adjusted employer match	**$**1,009.19	+ 1,009.19
Total Money Match benefit		$ 1,974.77