



## Q&A: Revised Early-Retirement Reduction Factors

### Why is SPTRFA changing the reduction for early retirement benefits?

Legislation that was accepted by the 2013 legislature mandated that SPTRFA make these changes to early retirement benefit calculations. Every four years SPTRFA's actuaries perform an extensive review of the assumptions used to estimate funded status and the liabilities associated with member benefits. The most recent assumption review, called an experience study, required a change in early-retirement reductions based on SPTRFA participants living longer lives than in the past. This means that if a member chooses to begin drawing a benefit early, before normal retirement age, the benefit must be reduced sufficiently to recognize that the individual is expected to receive the lifetime benefit for a longer period of time.

### Who is affected by this change?

The majority of members impacted by this change are those who became SPTRFA members on July 1, 1989, or later. The normal retirement age (NRA) for post-1989 SPTRFA members is age 66. There is no reduction if you delay receipt of your SPTRFA pension benefit until your normal retirement age. "Early retirement" occurs when you choose to draw your pension earlier than your NRA. The larger the number of years between your age at retirement and your normal retirement age, the larger the reduction – similar to Social Security. For example, if someone with a normal Social Security retirement age of 66 (those born between 1943 and 1954) retires at age 62, the Social Security benefit is reduced 30 percent.

### What are the new reductions for retiring early?

The reductions vary depending on number of years prior to normal retirement age. For example, under the new law, a post-1989 member choosing to retire at age 64 rather than age 66 will have their benefit reduced by 9 percent if s/he has less than 30 years of service and 7 percent if s/he has 30 years of service. The same member retiring at age 60 or 55 will receive a benefit that is reduced by 31 percent, or 52% respectively regardless of years of service. The new law eases the impact of the required calculations for all ages and improves the calculations for longer-service (30 years) teachers retiring at age 62 or later.

The table below shows reductions for Tier II benefits select ages (some pre-90 and all post-89 hires) under new law

Age At Retirement	Previous Early Retirement Factors (based on 3% augmentation)		Current Under Age 62 or less than 30 Years of Service		Current Meets age 62 with 30 Years of Service	
	Normal Retirement Age		Normal Retirement Age		Normal Retirement Age	
	65	66	65	66	65	66
55	0.6038	0.5699	0.5376	0.4592		
56	0.6320	0.5965	0.5745	0.4992		
57	0.6622	0.6250	0.6092	0.5370		
58	0.6944	0.6554	0.6419	0.5726		
59	0.7289	0.6880	0.6726	0.6062		
60	0.7659	0.7229	0.7354	0.6726		
61	0.8058	0.7605	0.7947	0.7354		
62	0.8487	0.8011	0.8507	0.7947	0.8831	0.8389
63	0.8951	0.8449	0.9035	0.8507	0.9246	0.8831
64	0.9454	0.8923	0.9533	0.9035	0.9635	0.9246
65	1.0000	0.9438	1.0000	0.9533	1.0000	0.9635
66	1.0000	1.0000	1.0000			



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### **Is there any way the early-retirement reductions can be avoided?**

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The SPTRFA Board supported legislation that was approved by the 2013 legislature to lessen the negative impact of the changes. The new law reduces the impact of the required change in the early retirement reduction calculations for SPTRFA members retiring before age 62 while the calculation for members retiring at age 62 and older with 30 years of service will see little change from previous estimates.

### **I'm a pre-1989 member. Does this affect my Rule of 90 benefit calculation?**

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No. As a pre-1989 member, upon reaching your Rule of 90 date, you are eligible for unreduced benefits under the Tier I Formula method. The new early-retirement calculations only affect members whose benefits will be paid under the Tier II Formula. As a pre-1989 member, you are eligible for the higher benefit resulting from Tier I and Tier II calculations. SPTRFA calculates the benefits earned under each method; you automatically get the higher amount.

### **Can anything be done to soften the impact upon members?**

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Initially, the proposed early retirement reductions were much larger. Through work done between staff and the Fund's actuary, *Gabriel, Roeder, Smith*, the SPTRFA Board supported legislation to lessen the negative impact of the changes. These changes were approved by the 2013 legislature and became effective for new retirees as of July 1, 2013. The Board's intervention reduces the impact of the required early retirement reductions for SPTRFA members retiring before age 62 while slightly lowering the reduction for members retiring at age 62 and older with 30 years of service.

### **I stopped teaching years ago and deferred collecting a retirement benefit.**

#### **How will the changes affect me?**

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Deferred members are subject to the same law.

### **How will SPTRFA communicate these changes to members?**

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Future SPTRFA member benefit estimates will incorporate the effects of the new reductions. Therefore, the estimated Tier II benefits within the early retirement age range of 55 through 65, will differ from prior years.

If you are close to retirement, our counselors can answer your questions about how the changes will impact you personally. Call **651-642-2550** to arrange a time to speak to a retirement counselor, or contact our member benefits staff via e-mail at: [info@sptrfa.org](mailto:info@sptrfa.org).