

Understanding the Variable Annuity Program

What Tier One/Tier Two Members Should Know Before and During Retirement

Key reminders

- If you have a variable account, you have **one opportunity after retirement** (up to 60 days after the issue date of your first benefit payment) to transfer your variable account balance into your regular account. You can make this transfer before retirement using the [One-Time Variable Transfer](#) form, as long as you meet specific age and eligibility requirements. You also can decide what to do **at retirement** as part of your retirement application.
- **If you leave money in the variable, your retirement benefit will increase or decrease annually depending on the variable's rate of return.** The amount is based on the assumed earnings rate in effect on your retirement date.

What choices do I have concerning my variable account balance when I retire?

When you apply for PERS retirement benefits, you may elect to transfer your variable account balance into your regular account, or continue participating in the Variable Annuity Program.

You make this election on the retirement application. If you elect a lump-sum option, your variable account balance will be automatically combined with your regular account.

You may change your variable election (you may decide to leave or continue participating) up to 60 days after the issue date of your first actual benefit payment. To make changes to your variable election, use the [Variable Election: Retiring Members](#) form. **Once the 60 days has elapsed, you cannot make changes to your variable election.**

What are the possible advantages of transferring out of the variable?

The types of investments in the regular account are more diversified than those in the variable account. The variable account is invested completely in stocks, while the regular account is invested in fixed-income securities (mortgages, corporate bonds, etc.) as well as stocks. As with the regular fund, the variable fund is managed by the Oregon State Treasury under the direction of the Oregon Investment Council.

Transferring from the variable to the regular account is a way to move all of your member account into a more conservative group of investments. The transfer is an individual decision.

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

If you choose to remain in the Variable Annuity Program at retirement, the variable annuity portion of your retirement benefit will increase or decrease annually based on the performance of the variable fund from **November 1 to the following October 31**. Any increase or decrease to your variable annuity is effective January 1, **payable beginning February 1**.

How is the variable fund evaluated for retirees?

For retirees, variable fund earnings or losses are evaluated **annually** for the 12-month period ending October 31. PERS converts the gross earnings rate of the variable fund to a net rate of return for each retiree, based on the assumed rate that was originally used to calculate a retirement benefit.

The variable annuity portion of your retirement benefit 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.

Variable account investment returns through October 31 of each year will affect individual retired members differently, primarily due to the assumed interest rate in effect at the time of initial retirement (*see below*). Each member also has a different proportion of his or her benefit funded by their variable annuity, so depending on the contribution level and earnings or losses credited since retirement, the annual impact differs.

Historical assumed rates

- Retired before January 1, 1978: **5.5%**
- Retired on or after January 1, 1978, but before June 1, 1992: **7%**
- Retired on or after June 1, 1992, but before January 1, 2014: **8%**
- Retired on or after January 1, 2014, but before January 1, 2016: **7.75%**
- Retired on or after January 1, 2016, but before January 1, 2018: **7.5%**
- Retired on or after January 1, 2018: **7.2%**

What happens if I elect to transfer out of the variable at retirement?

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.

What effect does my participation in the Variable Annuity Program have on my benefit calculation at retirement?

PERS uses three retirement benefit calculation methods for Tier One and Tier Two members:

- Money Match
- Full Formula
- 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 Annuity Program results in an increased or decreased retirement benefit when calculating the benefit methods at retirement.

How is the Full Formula retirement calculation method impacted at retirement if I participate in the variable?

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 option benefit. 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	<u>-\$15,490.53</u>
Difference	-\$4,894.16
Annuity factor	<u>× .00821</u>
Variable adjustment	- \$40.18

Full Formula calculation:

Monthly final average salary	\$5,647.63
General service statutory factor	<u>× .0167</u>
	94.32
Years of service	<u>× 24</u>
	\$2,263.57
Variable adjustment	- \$40.18
Total Full Formula benefit	\$2,223.39

How is the Money Match retirement calculation method affected at retirement if I participate in the variable?

This variable adjustment is applied to the employer match because 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	<u>-10,596.37</u>
Difference	\$4,894.16
Annuity factor	<u>× .00891</u>
Variable adjustment	\$43.61

Money Match Option 1 calculation:

Regular and Variable account balance	\$108,370.67
Annuity factor	<u>× .00891</u>
Regular and Variable annuity	\$965.58
Employer match	\$965.58
Variable adjustment	+ \$43.61
Adjusted employer match	\$1,009.19
Total Money Match Benefit	\$965.58
	<u>+ \$1,009.19</u>
	\$1,974.77

Reminder: You always receive the highest monthly benefit that results from PERS' calculation methods.

Do the yearly variable fund returns impact the nonvariable portion of my benefit?

No. If you remained in the variable, only the variable annuity portion of your benefit increases or decreases. This will be reflected in your total monthly benefit payment.

The nonvariable portion of your monthly payment comes from an annuity based on your regular account balance. At retirement, that benefit was calculated using your regular account balance, an assumed interest rate, and an annuity factor determined by your age.

Another part comes from a pension funded by your employer(s). These amounts are the 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:

Employer pension – fixed	\$525
Regular annuity – fixed	\$300
Variable annuity (<i>portion of benefit that will change annually</i>)	+ \$200
Total benefit at retirement	\$1,025

How is the annual increase or decrease in the variable annuity measured?

The variable portion of your benefit (measured in units) is re-valued annually. PERS 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.

How are unit values calculated?

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 November 1 to October 31, divided by the assumed interest rate at your retirement date.

Example: You retired July 1, 2016. The assumed interest rate when you retired was 7.5%. The variable annuity unit value increased for 2017 because the 25.37% variable earnings for November 1, 2016, to October 31, 2017, was greater than the assumed interest rate of 7.5%. The unit value increased from \$9.559 to \$11.1484 in 2017 for payments beginning February 1, 2018.

$$\begin{aligned} & \$9.559 \text{ (10/31/16 unit value)} \\ & \times 1.253745 \text{ (25.37\% gross return factor)} \\ & \div 1.075 \text{ (7.5\% assumed interest rate factor)} \\ & = 11.1484 \text{ (10/31/17 unit value)} \end{aligned}$$

If the variable annuity portion of a retirement benefit was assigned 10 units, the variable annuity effective January 1 and payable beginning February 1, 2018, would have increased from \$95.59 to \$111.48.

How can I find out the number of variable units assigned to my retirement benefit if I chose to remain in the variable?

Variable units are assigned in January for retirement benefits established through October 31 of the prior year. Contact PERS Member Services at 888-320-7377 or PERS.Member.Services@pers.oregon.gov to request the number of variable units assigned to your retirement benefit.



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