

# Glossary of Terms

*Information in this glossary denoted with an asterisk (\*) was taken from Employee Benefit Plans: A Glossary of Terms, Twelfth Edition, ed. Patricia A. Bonner, Ph.D., (Brookfield, WI: International Foundation of Employee Benefit Plans, 2010).*

**Actuarial Assumptions:** Factors used by the actuary to forecast uncertain future events affecting future benefits or costs associated with a pension fund. Among these factors are interest and investment earnings, inflation, unemployment, mortality rates and retirement patterns.\*

**Actuarial Reserve:** A method of financing a retirement plan where reserves are accumulated as the liabilities for benefit payments are incurred in order that sufficient funds will be available on the date of retirement of each member to pay future benefits.

**Actuarial Review:** A legally required annual review of PSRS/PEERS by the Systems' actuaries that evaluates financial risks, usually related to the probability and timing of certain events occurring.

**Age-Reduction Factor:** A multiplier used in the calculation of PSRS age-reduced early retirement benefits. The age-reduction factor is based on a member's age at the time of PSRS retirement and is subject to change.

**Basic Purchase Cost Calculation:** The calculation used to determine the cost of most PSRS service purchases. The calculation multiplies the highest annual salary on record by the current total contribution rate (employee plus employer) to determine the cost for each year of service.

**Beneficiary:** A person(s) or legal entity(ies) named by a PSRS member to receive benefits when the member dies.

**Benefit Factor:** A multiplier used in the calculation of PSRS benefits. The benefit factor is set by the Missouri Legislature and is based on a member's years of service and/or age, and eligibility for normal, 25-and-Out or age-reduced retirement formulas.

**Benefit Plan:** A payment option that allows a member to choose how lifetime monthly PSRS benefits will be paid to the member, and in some

cases, to beneficiaries. PSRS offers six different benefit plans that fall into three categories: Single Life, Joint-and-Survivor and Term-Certain plans. These benefit plans offer the flexibility to provide varying levels of financial protection for a beneficiary after the member's death.

**Consumer Price Index for Urban Consumers (CPI-U):** Measure of price changes for a basket of goods and services purchased by urban households. The CPI-U makes it possible to compare the relative cost of living over time. Considered a key indicator of inflation and deflation in the economy, the index is one of the factors considered by the PSRS/PEERS Board of Trustees when determining cost-of-living adjustments (COLAs) for benefit recipients. It is published monthly by the U.S. Bureau of Labor Statistics.

**Contributions:** Participating members and employers contribute an equal percentage of each member's salary to PSRS to help fund benefits. Member contributions are withheld from salary while working in covered employment and submitted to PSRS by the employer. The contribution rate is set each school year by the PSRS/PEERS Board of Trustees based on the recommendation of the Systems' actuary.

**Cost-of-Living Adjustment (COLA):** Adjustment of monthly benefits designed to offset changes in the cost of living, as measured by the Consumer Price Index for Urban Consumers (CPI-U) (see above).

**Critical Shortage Full-Time Employment Exception:** A legal provision under which PSRS service retirees of any age and disability retirees who are at least age 60 can work for a PSRS-covered employer that has declared a critical shortage of certificated employees, full-time for up to two years without losing PSRS benefits.

**Defined Benefit Plan:** A plan that uses a definite formula by which employee benefits are calculated. Also called a DB plan. PSRS is a defined benefit plan.

**Defined Contribution Plan:** A plan that provides an individual retirement account for each participant with benefits based solely on the amount contributed to the participant's account plus any

income, expenses, gains, losses and forfeitures by the participant. Contributions may be made by the employee and/or the employer. Defined contribution plans include 401(k), 403(b) and 457 plans. Also called a DC plan.\*

**Disability Retirement:** A benefit plan for qualified members who have experienced termination of employment as a result of an illness or injury resulting in a total and permanent disability and the inability to earn a livelihood in any occupation.

**Durable Power of Attorney:** A legal document by which a person delegates to a trusted family member or friend the authority to act on his or her behalf with regard to financial or other matters. This authority can be restricted from becoming effective unless and until you become incapacitated.

**Eligible Rollover Distribution:** Under the Internal Revenue Code (IRC), funds that can be rolled over to an IRA or to another retirement plan that accepts rollovers. In general, only the “taxable portion” of pension plan funds is an eligible rollover distribution.

**Employer Pick-up (EPU) Contributions:** Under the Internal Revenue Code (IRC), pension plan contributions made by the member that are tax-deferred until they are paid to the member or to the member’s beneficiary as a lump-sum refund or a monthly benefit. PSRS contributions made after June 30, 1989 are considered EPU contributions.

**Family and Medical Leave Act (FMLA):** Federal legislation that requires employers with more than 50 employees to provide eligible workers with up to 12 weeks of unpaid leave during any 12-month period if the employee is unable to work because of a serious health condition. The same unpaid leave is available for the birth of a child and newborn care, adoption, foster care placement, and care of an immediate family member (spouse, child or parent) with a serious health condition.\*

**Fiduciary:** A person or institution legally responsible for the management, investment and distribution of a fund. The trustees and administrators who are responsible for the oversight of employee benefit trust funds are considered fiduciaries.\*

**Final Average Salary (FAS):** A monthly salary figure used in the calculation of PSRS retirement benefits. Final Average Salary is determined by adding your three highest consecutive years of salaries (including employer-paid health, dental and vision insurance), and dividing the total by 36 months.

**Final Average Salary (FAS) Caps:** In determining Final Average Salary, PSRS disregards any increase in salary in excess of 20% from one year to the next for school years 1997-1998 through 2006-2007. This changed to 10% for salary earned after August 28, 2007, resulting in a blended cap of 12% for the 2007-2008 school year, and a 10% cap from the 2008-2009 school year forward. These caps do not apply to increases in salary that are due to a genuine change in position or employer, increases required by state statute or district-wide salary schedule adjustments for previously unrecognized education-related employment.

**\$5,000 Death Benefit:** A one-time, lump-sum taxable distribution payable to a designated beneficiary at the death of a PSRS retiree.

**Independent Contractor (IRS definition):** A self-employed person who has the right to control the manner and means of accomplishing the work for which he or she is responsible. Independent contractors cannot be covered by PSRS.

**Insurable Interest:** A person’s financial interest in (financial dependence on) the continuing life of an individual as determined by PSRS. A spouse, child or parent has automatic insurable interest. Documentation of insurable interest must be provided for any other individual.

**Internal Revenue Code (IRC):** Federal tax law followed and enforced by the Internal Revenue Service (IRS).

**Investment Earnings:** The primary source of funding for PSRS benefits. PSRS professionally invests all contributions to the plan from members and their employers to help fund benefits.

**IRS Form 1099-R:** An IRS form mailed to all PSRS benefit recipients after the end of each calendar year, indicating the total benefits paid for the year, the taxable portion of those benefits, the tax-free amount recovered in the year, if any, and the amount

of tax withheld during the year. This form is used when preparing tax returns.

**Medical Advisor:** A licensed physician retained by PSRS to review applications for PSRS disability benefits. The medical advisor makes recommendations on whether a member's medical condition meets the System's definition of disability and qualifies that person under Missouri law to receive, or continue to receive, those benefits.

**Membership Status:** The status of a membership depends on whether the member is working in PSRS-covered employment, and how much service he or she has. A membership is considered **active** as long as the member is employed in a position qualified for membership and contributes to PSRS. A membership is considered **inactive** if the member is employed in a position that does not qualify for membership, or ends covered employment but leaves his or her contributions with PSRS (does not take a refund).

**Minimum Distribution Requirement:** Federal law requires members who are no longer in PSRS-covered employment begin receiving distributions from PSRS by April 1 of the year after reaching age 70 ½. Members who fail to meet the minimum distribution requirement may be subject to a substantial federal excise tax.

**Missouri Public Pension Exemption:** A Missouri income tax provision that allows qualified Missouri residents to exempt all or part of their PSRS benefits from their adjusted gross income for Missouri income tax purposes.

**Missouri Transfers to Minors Law:** A Missouri law that covers how funds or property may be transferred to minors named as beneficiaries upon death.

**Partial Lump Sum Option (PLSO):** A benefit payment option that allows qualified members of PSRS who work three years beyond normal retirement eligibility to choose to receive a one-time, lump-sum payment at the time of retirement in exchange for actuarially reduced lifetime monthly benefits.

**Partial Lump Sum Option (PLSO) Factor:** An actuarial factor used to determine the reduction in the lifetime monthly PSRS benefit of members who have chosen to receive a Partial Lump Sum Option (PLSO) payment at retirement. The amount of the reduction reflects the value of the PLSO payment and the member's age at retirement.

**PSRS/PEERS Board of Trustees:** This seven-member board is charged by law with the administration of PSRS/PEERS. The Board adopts rules to govern its own proceedings and to operate the Systems within the framework of the law. Four trustees are elected by members and three are appointed by the Missouri governor. All serve four-year terms. Trustees serve without compensation.

**Public Education Employee Retirement System of Missouri (PEERS):** The Public Education Employee Retirement System of Missouri (PEERS) is a defined benefit (DB) retirement plan established in 1965 to provide service retirement and disability benefits to qualified non-certificated Missouri public school employees, and survivor benefits to qualified beneficiaries.

PEERS is an actuarial reserve, joint-contributory program and operates as a tax qualified plan under section 401(a) of the Internal Revenue Code.

**Public School Retirement System of Missouri (PSRS):** The Public School Retirement System of Missouri (PSRS) is a defined benefit (DB) retirement plan established in 1946 to provide service retirement and disability benefits to qualified certificated Missouri public school employees, and survivor benefits to qualified beneficiaries.

PSRS is an actuarial reserve, joint-contributory program and operates as a tax qualified plan under section 401(a) of the Internal Revenue Code.

**Reciprocity:** The ability to transfer service from one Missouri public retirement system to another based on signed, mutual agreements between the systems.

**Recognition of Service:** The ability to recognize qualified service from multiple Missouri public educational retirement systems to determine retirement eligibility and the benefit factor used in the retirement calculation.

**Reinstatement:** Buying back previous PSRS service forfeited by taking a refund of PSRS contributions and interest.

**Retirement Incentive:** A written or unwritten contract or agreement between an employer and employee which enables the employee to receive salary or other benefits such as health insurance in exchange for an agreement to retire. Some retirement incentives also include a requirement for post-retirement employment and would violate the requirement for termination of employment (see below.)

**Rule of 80:** Any combination of age and service that equals 80, used to determine normal retirement eligibility. Age and service are both rounded to five decimal places (80.00000).

**Rule of 86:** Any combination of age and service that equals 86, used to determine Partial Lump Sum Option (PLSO) eligibility. Age and service are both rounded to five decimal places (86.00000).

**Salary:** All earnings by a PSRS member as an employee of a PSRS-covered employer are subject to retirement contributions. Salary also includes, but is not limited to, payments for extra duties, overtime payments, career ladder payments, payments for overloads (e.g. extra hours taught) and additional courses, and employer-paid health, dental and vision insurance premiums for the member. This definition became effective July 1, 1997.

**Service:** Used in part to determine eligibility for PSRS retirement benefits. Years of service are also used to determine benefit amounts. In PSRS, service is earned through covered employment or, if a member meets eligibility requirements, service can also be reinstated, purchased and transferred.

**Service Purchase:** Eligible PSRS members may purchase service toward their retirement for time spent on military, sick or maternity leave, or other qualified employment not covered by PSRS.

**Service Retirement:** PSRS lifetime monthly retirement benefits provided, upon application, for members who properly terminate covered employment and meet minimum service and age requirements.

**Statutory Succession of Beneficiaries:** A Missouri law which, in the absence of a valid beneficiary designation by the member, defines which individuals will be designated beneficiaries, and in what order of precedence, for the purpose of receiving benefits.

**Supplemental Service Purchase:** Supplemental service may be purchased by members within five years of retirement eligibility. A purchase may be for up to five-tenths (0.5) of a year. This purchase does not require any prior employment, service or leave period, and does not count toward vesting PSRS membership. IRS regulations may limit the amount of supplemental service purchased if the member also purchases service for Social Security-covered employment.

**Survivor Benefits:** Benefits paid to the qualified, surviving beneficiaries of qualified PSRS members who die before retirement. Beneficiaries may also receive benefits upon a member's death after retirement, depending on the benefit plan selected.

**Tax-Deferred Rollover:** As defined by the IRS, a reinvestment made directly, or within 60 days of a lump-sum distribution, from one qualified retirement plan to another. Income tax on the distribution is deferred until the benefits involved are finally distributed from the recipient plan. Sometimes used in the payment of reinstatements and service purchases.

**Termination of Employment:** IRS rules state that retirement systems must require a clear separation of service between the end of pre-retirement employment and the start of post-retirement work for covered employers. PSRS requires a separation period of one month from the PSRS retirement date. Proper termination also requires that no agreement, written or unwritten, for future employment with a covered employer be entered into until after receipt of the first benefit payment. Improper termination will cause the loss of retirement benefits.

**Termination of Membership:** PSRS membership is automatically ended when a non-vested member is out of PSRS-covered employment for five consecutive school years and does not purchase additional service. Active membership is also terminated by retirement, death or by the refund of the member's funds from PSRS.

**Testamentary Trust:** A trust that is set up in a will. The creator of the trust is the person who is no longer living, and the trustee, as identified in the will, is the person who manages the property for one or more beneficiaries.

**Trial Return to Work:** PSRS disability retirees age 60 or younger may request to return to work on a trial basis while benefits are put on hold.

**Trustee-to-Trustee Transfer:** A transfer of funds from one qualified retirement plan to another qualified retirement plan, with no immediate tax consequences. Sometimes used in the payment of reinstatements and service purchases.

**25-and-Out:** An early retirement benefit set by Missouri law using a lower benefit factor in the benefit calculation. It provides reduced benefits to eligible service retirees with 25, but less than 30 years of service and do not qualify for Rule of 80 (see definition).

**USERRA:** The Uniformed Services Employment and Reemployment Rights Act. Under this federal law, a qualified member may purchase service for time spent on leave while serving in the U.S. Armed Forces, National Guard and other service categories designated by the president in times of war or emergency. The same employer must re-employ the member after the active duty. USERRA service can be granted or purchased.

**Vesting:** When a member has enough eligible service to qualify for a future retirement benefit without additional PSRS-covered employment. In PSRS, vesting occurs with five years of eligible service.

**Volunteering:** Work you perform for which you receive no salary (including health insurance or other benefits) and with duties that are substantially different from any paid work you may perform for the same employer.

**Web Member Services:** A secure portion of the PSRS/PEERS website where members who have registered for access can view and update personal membership information, as well as estimate future benefits and purchase costs. Web Member Services can be found at [www.psr-peers.org](http://www.psr-peers.org).