# Understanding the Partial Lump Sum Option (PLSO)

PEERS

PUBLIC EDUCATION EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI

# The Partial Lump Sum Option (PLSO)

The Partial Lump Sum Option (PLSO) allows eligible members to receive a lump-sum payment at retirement in addition to reduced lifetime monthly benefits. If you qualify, the PLSO can provide financial flexibility.

With the PLSO you receive:

- A one-time, lump-sum payment at retirement
- Reduced monthly benefits paid for life, no matter how long you live

**Your lifetime monthly benefits are reduced to offset the lump-sum payment. In effect, the reduced monthly benefits are how you "pay" for receiving part of your lifetime benefits up front.**

You can still choose any of the six benefit plans for payment of your monthly benefits to provide the best level of financial protection for your family. Visit **www.psrs-peers.org** for more information.

## PLSO Eligibility

You must work three years beyond normal retirement eligibility to qualify for the PLSO.

You are eligible when you meet any one of the following requirements:

- Age 63 with eight or more years of service,
- At any age with 33 or more years of service, or
- Qualify for Rule of 86 (your age plus your years of service equals 86 or more).

**Important Notes:**

- If you choose the Accelerated Payment Plan (APP) for payment of your monthly benefits, you cannot choose the PLSO. For more information on the APP, visit our website or the ***PEERS Member Handbook*** online.

- If you return to work for a PEERS-covered employer after retirement and your employment meets membership eligibility requirements, you must start a second membership. You cannot receive a PLSO payment on your second membership.

## Calculating PLSO Benefits

### One-Time, Lump-Sum Payment

The PLSO payment can equal 12, 24, or 36 times your Single Life monthly benefit. The Single Life benefit plan provides the largest monthly retiree benefit.

In the example below, the member has a Single Life benefit of $755 per month and selected a 12-month lump-sum payment.

| Example | | | | |
|---|---|---|---|---|
| Lifetime Single Life Benefit | x | 12, 24, or 36 | = | PLSO Payment |
| **$755** | **x** | **12** | **=** | **$9,060** |

### Reduced Lifetime Monthly Benefits

Your monthly benefits are reduced based on your age and the number of months calculated in your lump-sum payment. This reduction is calculated by multiplying your Single Life monthly benefit by a PLSO reduction factor (see the chart on page 4). The reduction applies regardless of the benefit plan you choose for the payment of your monthly benefits.

If you qualify for the .8% temporary benefit, it is not included in the lump-sum calculation, but it is added to your monthly benefit until you reach age 62.

In the example below, the member is 63 years old and selected a 12-month PLSO. Therefore, her PLSO reduction factor is .9156.

**Example**

| Lifetime Single Life Benefit | | PLSO Reduction Factor | | PLSO-Reduced Lifetime Single Life Benefit |
|---|---|---|---|---|
| **$755** | **x** | **.9156** | **=** | **$691** |

**PLSO Reduction Factors**

| Retirement Age | 12-Month Factors | 24-Month Factors | 36-Month Factors |
|---|---|---|---|
| 55 | 0.9242 | 0.8484 | 0.7726 |
| 56 | 0.9234 | 0.8468 | 0.7702 |
| 57 | 0.9225 | 0.8450 | 0.7675 |
| 58 | 0.9215 | 0.8431 | 0.7646 |
| 59 | 0.9205 | 0.8411 | 0.7616 |
| 60 | 0.9194 | 0.8388 | 0.7583 |
| 61 | 0.9182 | 0.8365 | 0.7547 |
| 62 | 0.9169 | 0.8339 | 0.7508 |
| 63 | 0.9156 | 0.8311 | 0.7467 |
| 64 | 0.9140 | 0.8281 | 0.7421 |
| 65 | 0.9124 | 0.8247 | 0.7371 |
| 66 | 0.9106 | 0.8211 | 0.7317 |
| 67 | 0.9086 | 0.8172 | 0.7258 |
| 68 | 0.9065 | 0.8129 | 0.7194 |
| 69 | 0.9042 | 0.8083 | 0.7125 |
| 70 | 0.9017 | 0.8033 | 0.7050 |

***Note:*** The factors in this table are approximations. The exact reduction factor applied depends on your age in years and months. Factors are subject to change based on actuarial assumptions.

# Taxes on PLSO Payments

Most, if not all, of your PLSO payment is considered taxable income the year payment is made.

**If you do not roll over the taxable portion of the lump-sum payment to an eligible retirement account, you will owe taxes on the lump sum.**

The entire lump-sum payment is taxable unless you have non-taxable funds from contributions credited to your membership prior to Jan. 1, 1987. If you do, those funds are included in your PLSO payment and that portion of your payment is considered non-taxable income.

- The IRS requires PEERS to withhold 20% from any taxable portion.
- If you receive payment before age 59 ½, you may owe an additional 10% federal tax penalty. This penalty does not apply if you separate from service during or after the tax year when you reach age 55.

The SECURE 2.0 Act of 2022 (SECURE 2.0) allows for possible favorable tax treatment for individuals determined to have a terminal illness or condition. The legislation considers an illness or condition to be terminal if it is reasonably expected to result in death in 84 months or less. This determination must be made prior to the receipt of the disbursement. We recommend that you consult your individual tax advisor if this provision could apply to you.

If you reach age 72 after Dec. 31, 2022, you must take the IRS Required Minimum Distribution (RMD) payment the year you reach age 73 or in the year you retire, whichever is later. If you turn age 72 before or during the tax year of your refund payment, PEERS will calculate your RMD and pay it directly to you.

You will receive an IRS Form 1099-R showing the taxable and non-taxable portions of the lump-sum payment and any taxes that are withheld.

Because PEERS does not offer tax advice, we strongly suggest that you consult a tax professional before deciding whether to take the PLSO.

### Defer Taxes with a Rollover

You can request a direct rollover of your lump-sum payment to a qualified retirement account, such as an IRA, to defer taxes and avoid the 10% penalty.

Keep in mind:

- Funds rolled into a Roth IRA are considered taxable income in the year of the rollover.
- If you roll over 100% of your PLSO payment (including taxable and non-taxable funds), you should ask your financial advisor whether the taxable and non-taxable portions will be tracked separately. This is required by the IRS to prevent double taxation.
- PEERS can issue only one check for rollover funds.

For more details, see the brochure ***Your Rollover Options*** included with your PLSO ***Benefit Estimate*** or visit **www.psrs-peers.org**.

## Applying for PLSO Benefits

You must apply for service retirement before your PEERS retirement date. Apply online or by submitting paper forms, including

- ***Service Retirement Application Packet***
- ***PLSO Distribution Election form***
- Other required documents

Forms are available at **www.psrs-peers.org** or by request.

## Making the PLSO Decision

Some members feel pressured by financial advisors, insurance companies, or retirement planners to choose the PLSO. These advisors may recommend investing the lump sum elsewhere or using it to buy insurance that provides an annuity for your spouse or loved one. Be cautious — promises of high returns or guaranteed wealth should be carefully evaluated. When in doubt, get a second opinion.

**The decision to choose the PLSO is a personal one. You might choose the PLSO to pay medical bills, leave an inheritance, build a nest egg, or meet some other goal. Only you can decide what is best for you and your family.**

When deciding whether the PLSO is right for you, consider these potential pros and cons:

### Pros of the PLSO:

- Provides funds to pay off long-term obligations (such as a mortgage)
- Works well if you have other dependable sources of retirement income
- Gives you more control over, and responsibility for, investing for retirement

### Cons of the PLSO:

- Reduces your monthly PEERS benefits for life
- Future cost-of-living increases are based on your reduced benefit
- Investing the lump sum may involve risk with no guaranteed outcome
- Reduces any monthly benefit payable to your beneficiary
- May result in taxes and penalties if not rolled over

Choosing the PLSO can have a significant impact on your future retirement benefits and requires careful consideration. To feel confident in your decision, enlist the help of a good financial planner and tax advisor who can help guide you in making the choice for all the *right* reasons.

## Legal Disclaimer

This booklet explains your rights, benefits and responsibilities as a member of the Public Education Employee Retirement System of Missouri (PEERS). It is intended to serve as a ready source of information about the System and not as a legal document or a substitute for the law. If differences appear between the law and the booklet, the law must prevail.

The System is governed by the laws found in Chapter 169, ***Revised Statutes of Missouri*** and the ***Missouri Code of State Regulations (CSR)*** Title 16, Division 10.

Similarly, the law takes precedence over any oral statements made by a representative of PEERS regarding your rights, benefits, and responsibilities as a PEERS member.

For further information, please refer to the PEERS ***Member Handbook***, contact us at our office or visit us online.

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