

# A Critical Decision for You to Make Right Away – NO “do overs”



You must make a critical decision within 45 days of being notified by PSERS: will you agree to pay 2.8% more of your salary toward your retirement beginning now in order to have **25% more money** when you retire? There are no second chances on this decision so please read on.

This decision can make a substantial difference over the course of a long career and may even increase your total retirement earnings by as much as \$80,000.

**PSEA believes that the worst thing that you could do for your retirement is to put this decision off until it is too late for you to exercise your right to decide.**

*Disclaimer: PSEA provides this information to new and potential members for general education about the Class T-F Election. This flier is not intended and should not be used for the purpose of making specific investment and/or retirement decisions. PSEA and its staff believe the information is correct but do not guarantee its accuracy.*

## What is a Pension Annuity? (Sorry; some technical information at the start.)

The Public School Employees’ Retirement System (PSERS) pension plan is a “defined benefit” plan, the annual pension benefit you are earning and will receive each year for the rest of your life after retiring as explicitly defined in law. Your benefit, when you reach normal retirement age, is defined as follows:

$$\text{Final Average Salary} \times \text{Multiplier} \times \text{Years of Service} = \text{Annual Pension Benefit}$$

Your default multiplier is 2.0% (Class T-E), but you can choose a 2.5% multiplier (Class T-F). If you work 35 years, then your pension will be:

Class T-E: **2.0%** x 35 = Annual Pension Benefit that is **70.0%** of your Final Average Salary

Class T-F: **2.5%** x 35 = Annual Pension Benefit that is **87.5%** of your Final Average Salary





**In short, electing to join Class T-F increases your annual pension benefit by 25%.**

Greater income replacement after 35 years: +17.5% of your final average salary.

$(87.5\% - 70\% = 17.5\%)$

Difference when compared to Class T-E membership: +25%.

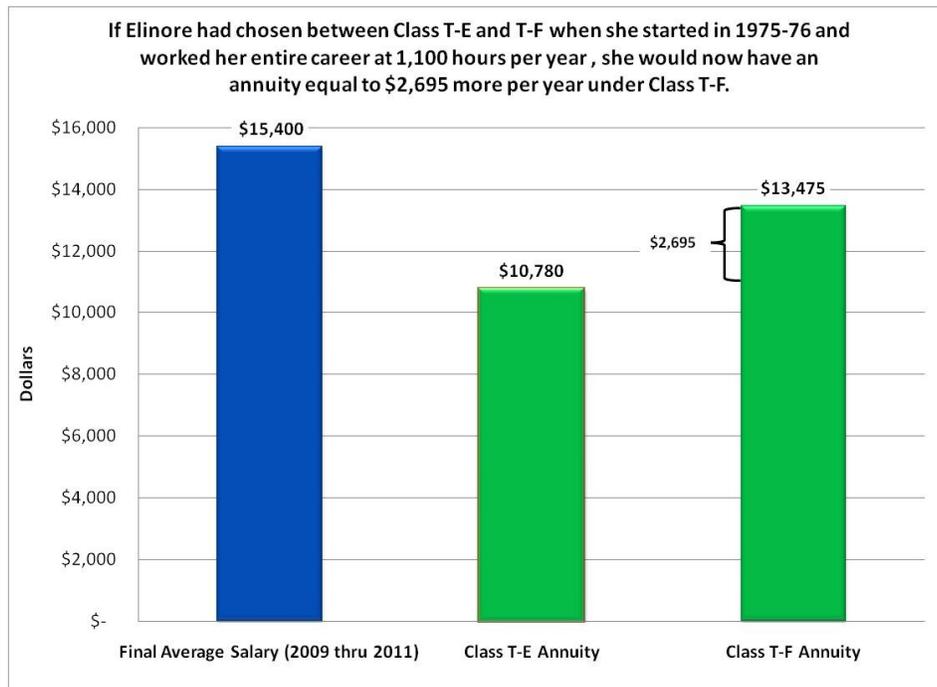
$(17.5\% \text{ divided by } 70\% = 25\%)$

**How much income will you need in retirement?**

Due to projections of increasing costs in retirement and decreasing income from other sources, a generally accepted recommendation is becoming that **people need to plan to replace 80% to 100% of their pre-retirement income to maintain their standard of living when they retire.** They also need to keep up with the rate of inflation each year.

**Current retirees didn't have to make this same decision when hired, but what if they had?**

Elinore began working in 1975-76. Thirty-five years later, in 2010-11, her Final Average Salary (over the last three years) was \$15,400 (1,100 hours at \$14 per hour). Under the 2.0% multiplier (Class T-E), Elinore would have earned \$10,780 as an annual retirement income. Under the 2.5% multiplier (Class T-F), she would have earned \$13,475. If she lived 30 years in retirement, she would have earned \$80,000 more from having chosen Class T-F.





### How much will it cost you?

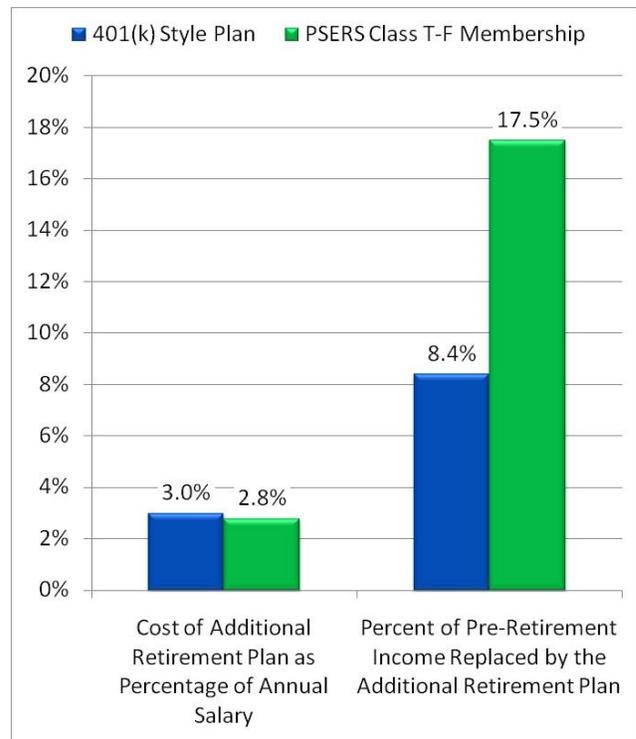
The 25% increase in the annual retirement income is not free; you will need to pay 2.8% more of your salary (pre-tax). Class T-E members contribute 7.5% of their salary for the 2.0% multiplier. Since the 2.8% increase for Class T-F is pre-tax dollars, the impact on your take-home pay is likely to be only 2.2%. If you work 30 hours a week at \$14 per hour and get a paycheck every other week, then the additional 2.8% cost of choosing Class T-F is likely to be only \$18.82 per paycheck.

Is this a reasonable amount to contribute? Sixty-two percent of people already saving money say it is reasonably possible for them to increase their retirement savings by \$50 every two weeks. If they had to “cut back” on other spending, the cut backs would be on dining out, entertainment, groceries or impulse buying.

### Could you do better for yourself by investing on your own?

If you want a higher income in retirement, you have a choice of savings plans. Among them is being a Class T-E member and investing 2.8% of your income on your own. Could you replace an additional 17.5% of your pre-retirement income by saving and investing the 2.8% of salary on your own? It is possible, but, for most of us, statistically unlikely. Research indicates that you are unlikely to save all of the 2.8%, that you are unlikely to get great investment returns, and that you are unlikely to purchase a private annuity at retirement that would guarantee your pension income until you die.

Estimates generated utilizing T. Rowe Price’s award-winning “Retirement Income Calculator” indicate that by saving 3% of income every year from age 25 to age 60 (35 years), by investing the savings in a 100%-stock mutual fund (a retirement-date mutual fund resulted in slightly lower results), and by planning on having the savings last in retirement until age 90, that you could replace 8.4% of your pre-retirement income every year. Alternately, investing 2.8% of income every year for 35 years via PSERS Class T-F membership allows you to replace 17.5% of your pre-retirement income, not just to age 90, but for as long as you live.





**So, what do you have to do?**

1. Look in your mailbox for two (2) separate mailings from PSERS:
  - a. A “Welcome” Kit with general information about PSERS and your benefits (pension, disability, etc.)
  - b. A “T-F Membership Class Election” Kit.
2. **Make a decision!**
  - a. Ask someone you trust (for example, your financial planner, accountant, parent or grandparent) what they would do.
  - b. Take advantage of your right to decide how to protect yourself in retirement.

**By law (Act 120 of 2010), you will have only 45 days from the day that you receive the T-F Membership Class Election Kit to notify PSERS of your decision to elect membership in Class T-F (the class with the 2.5% multiplier).**

**Under current law, there will be NO 2<sup>nd</sup> CHANCES to make this decision.**

**PSEA believes that the worst thing that you could do for your retirement is to put this decision off until it is too late for you to exercise your right to decide.**

**For questions or concerns regarding your Class T-F election, you may contact:**

**PSERS Member Service Center**  
Website: [www.psers.pa.gov](http://www.psers.pa.gov)  
Email: [contactPSERS@state.pa.us](mailto:contactPSERS@state.pa.us)  
Harrisburg area: (717) 787-8540  
Other areas: (888) PSERS-4-U (773-7748)

**PSEA**  
Contact your PSEA UniServ Rep.

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