

BackDROP Example

There are 4 key elements that will affect the amount of your BackDROP lump sum amount and your monthly benefit amount:

- Total Service
- Final Average Pay
- Total Monthly Benefit
- Lump Sum Payment

In the example below, notice how when one of these elements go up, the others come down.

This BackDROP example is for informational purposes only!

BackDROP Period/ Total Service	Final Average Pay	Monthly Benefit	Lump Sum Payment
No BackDROP 36 yrs 4 mths	\$3,754.51	\$3,410.35	N/A
1 Yr. BackDROP 35 yrs 4 mths.	\$3,648.96	\$3,322.27	\$34,811.16
2 yr. BackDROP 34 yrs 4 mths.	\$3,519.72	\$2,755.55	\$66,258.12
3 yr. BackDROP 33 yrs 4 mths.	\$3,450.61	\$3,133.75	\$95,748.48
4 yr. BackDROP 32 yrs 4 mths.	\$3,365.52	\$3,041.30	\$122,304.72
5 yr. BackDROP 31 yrs 4 mths.	\$3,218.48	\$2,894.86	\$143,644.20

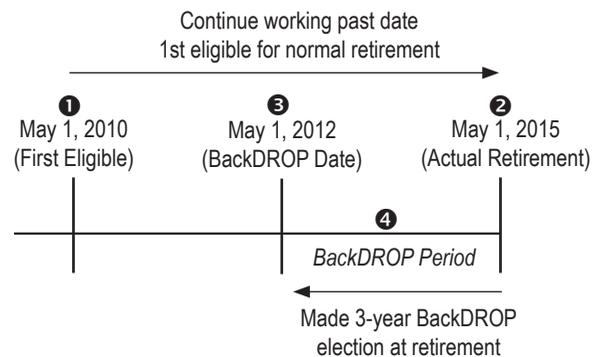
In this example, if you elect the 5-year BackDROP, your monthly benefit payment will be \$515.49 less than if you had not elected BackDROP.

Will this affect the amount you need to live on each month?

Example of Important BackDROP Dates

This example coordinates with the diagram below. Actual dates were used to make it easier to understand. *This example is for illustrative purposes only!*

- 1 First Eligible for Retirement (May 1, 2010)
Date you first became eligible for normal retirement. You must work at least 2 years beyond this date to be eligible for BackDROP.
- 2 Actual Date of Retirement (May 1, 2015)
Continued working until April 2010, making May 1 your actual date of retirement.
- 3 BackDROP Date (May 1, 2012)
Elected a 3-year BackDROP at retirement. Retirement benefit will be calculated using your service and final average salary as of this date.
- 4 BackDROP Period (5/1/2012 - 5/1/2015)
BackDROP lump sum based on 90% of the retirement benefit you would have received during this period (had you retired on the BackDROP date).



MoDOT & Patrol Employees' Retirement System

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This brochure briefly describes the BackDROP provisions. The information in this brochure does not amend or overrule any applicable statute or administrative rule. In the event of a conflict, the applicable statute or administrative rule will prevail.

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BackDROP



A brief explanation of the BackDROP payment option.



MoDOT & Patrol Employees' Retirement System

Introduction

The BackDROP is a payment option that members of the Closed Plan or the Year 2000 Plan may elect at retirement (if eligible). This option provides a way for you to receive a lump sum payment at retirement in addition to your ongoing monthly benefits.

Advantages of the BackDROP

- The BackDROP gives you an additional option for receiving your retirement benefit.
- You will receive a portion of your retirement benefit in a lump sum. This may help you pay off a loan, medical bills, etc.
- You could increase your retirement savings by rolling the lump sum into a traditional Individual Retirement Account (IRA) or your State of Missouri Deferred Compensation account for use at a later date.

Disadvantages of the BackDROP

- Electing the BackDROP will reduce your monthly benefit amount. *How will this affect the amount you need to live on each month?*
- If you select the cash option to receive the lump sum payment, it could result in a large federal and state income tax liability (*in addition to the 20% MPERS is required to withhold at the time of payment*).
- The time you work and the salary you earn during the **BackDROP period** will **not** be used in calculating your monthly benefit amount or your lump sum.

Eligibility

To be eligible for the BackDROP, you must continue working in a MPERS covered position at least 2 years after you first become eligible for normal (unreduced) retirement.

BackDROP Date

If you elect the BackDROP at retirement, you will have an opportunity to select the **BackDROP date** that will be used in calculating your retirement benefit. In other words, MPERS will use your creditable service and final average pay (high 36) as of your **BackDROP date** when calculating your benefit. Selecting the **BackDROP date** gives you an opportunity to maximize your monthly benefit payment and lump sum amount.

Whatever **BackDROP date** you choose, it must meet both of the following requirements. It must be:

- On or after the date you are first eligible for normal retirement.
- Within the 5-year period immediately prior to your actual date of retirement.

BackDROP Period

The **BackDROP period** is the length of time between your **BackDROP date** and your actual retirement date. You may select a **BackDROP period** (in 1 year increments) ranging from 1 year to the total years and months you worked after normal retirement eligibility, up to a maximum of 5 years.

Members of the 2011 Tier are not eligible for the BackDROP.

Applying for BackDROP

No action is required until you actually apply for retirement. If you are eligible for the BackDROP, you will make an election on your *Retirement Election Form*, which is Step 2 of the 2-Step Retirement Process.

MPERS will use the information contained in your *Notice of Retirement* form (Step 1) to generate an individualized *Retirement Election Form* and benefit estimate(s) for your retirement elections. If you elect the BackDROP, you will be asked to select a **BackDROP period** and how you wish to receive the BackDROP lump sum (cash or rollover).

BackDROP Amount

The BackDROP lump sum amount will equal 90% of the Life Income Annuity amount that you would have received between the **BackDROP date** and your actual retirement date (as if you had retired on the BackDROP date). This includes any temporary benefits, cost-of-living adjustments (COLAs), and other applicable benefit increases for which you might have received during that period (if any).

Know the tax consequences of your payment method election.

- *BackDROP is considered taxable income for the year in which you receive the payment, unless you elect the rollover option.*
- *For a detailed explanation of the payment methods and tax consequences, please review our *Special Tax Notice* brochure.*

Payment Methods

If you elect the BackDROP, you must submit a *BackDROP Distribution Form*. On this form, you will tell MPERS how you wish to receive your BackDROP payment.

- **Cash Option** - If you elect the cash option, the lump sum payment will be paid directly to you. MPERS is required by law to withhold 20% of the payment for federal taxes. *If you elect the cash option to receive your BackDROP distribution and you have not reached age 59 1/2, you may have to pay a 10% penalty on the taxable portion of the payment in addition to the regular income tax. For more information, consult our *Special Tax Notice* brochure and/or a tax professional.*
- **Rollover Option** - If you elect the rollover option, your payment will be made directly to your traditional IRA or eligible employer plan. Your payment will not be taxed in the year of the rollover and no income tax will be withheld, unless it is a rollover to a Roth IRA. Otherwise, the payment will be taxed when you take it out of the IRA or employer plan.
- **Combination Cash and Rollover Option** - If you elect this option, you may specify the amount of the (cash) distribution to be paid directly to you (minus the required 20% federal income tax withholding). The remaining balance will be paid (rolled over) to your traditional IRA or eligible retirement plan.

For a detailed explanation of the payment methods and tax consequences, please review our *Special Tax Notice* brochure, which is available on our website (www.mpers.org). We recommend you contact a tax consultant or financial advisor before electing a payment method.