



BackDROP

and Your MPERS Benefit

BackDROP Definition

BackDROP is a payment option that is available to Closed Plan and Year 2000 Plan members if they have worked in a benefit-eligible position at least two years past their normal retirement eligibility date.

If chosen, you will receive a one-time, lump-sum payment equal to 90% of the life income annuity benefit that would have been received between your elected BackDROP date and your actual retirement date. This lump-sum payment is in addition to your monthly, lifetime benefit payment and includes any applicable temporary benefits, cost-of-living adjustments (COLAs), and other benefit increases you might have received during that period.

BackDROP Period

The BackDROP period is the length of time between your BackDROP date and your actual retirement date. On the *Retirement Election Form*, you may elect a BackDROP period in one-year increments and may range from one year to the total years and months worked after normal retirement eligibility, not to exceed five years.

BackDROP Date

The BackDROP date is an earlier date on which you could have retired. If you elect BackDROP at retirement, you will select the BackDROP date that will be used to calculate your retirement benefit. In other words, MPERS will use your creditable service and final average pay (highest 36 consecutive months of pay) 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, based on your personal circumstances.

Regardless of which BackDROP date you choose, it must be on or after the date you are first eligible for normal retirement and within the five-year period immediately prior to your actual date of retirement.



BackDROP Example



Meet Joe.

Joe is preparing for retirement. He

- is eligible to retire on June 1, 2026,
- is interested in BackDROP, and
- will have 36 years and four months of service in if he works five years past his normal eligibility date.

There are four key elements that will affect the amount of Joe's BackDROP lump-sum amount and his monthly benefit amount.

- Total service
- Final average pay
- Total monthly benefit
- Lump-sum payment

Notice in the example below that when his lump-sum payment increases, his monthly benefit decreases.

This BackDROP example is for informational purposes only

BackDROP Period/ Total Service	Final Average Pay	Monthly Benefit	Lump-Sum Payment
No BackDROP 36 years 4 months	\$3,754.51	\$3,410.35	\$0
One-Year BackDROP 35 years 4 months	\$3,648.96	\$3,287.72	\$34,811.10
Two-Year BackDROP 34 years 4 months	\$3,519.72	\$3,143.15	\$65,908.19
Three-Year BackDROP 33 years 4 months	\$3,450.61	\$3,051.52	\$95,042.27
Four-Year BackDROP 32 years 4 months	\$3,041.30	\$2,661.02	\$109,430.46
Five-Year BackDROP 31 years 4 months	\$3,218.48	\$2,504.09	\$127,471.86

In this example, if Joe elects the five-year BackDROP, his monthly benefit payment will be \$906.26 less than if he did not elect BackDROP.

Will this affect the amount Joe needs to live on each month?



Example of Important BackDROP Dates

This example is for illustrative purposes only

A. June 1, 2026—First eligible date

Date Joe became eligible for normal retirement. He must work at least two years beyond this date to be eligible for BackDROP.

B. June 1, 2031—Actual retirement date

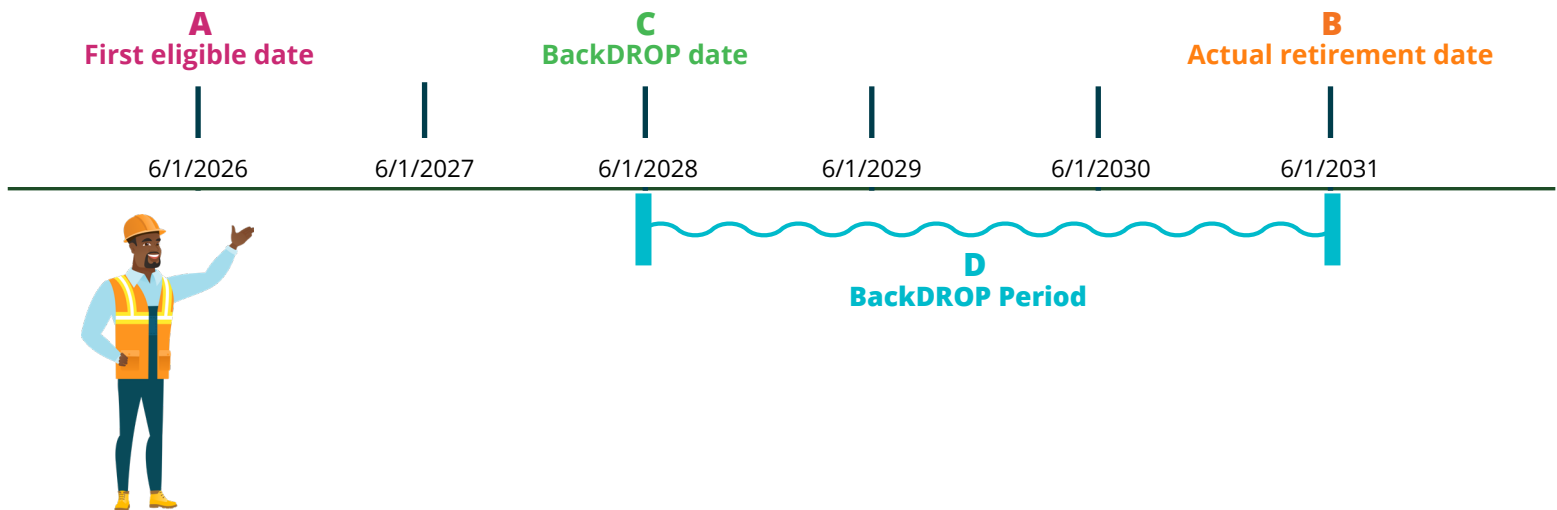
Joe continued working until June 2031, making June 1 his actual date of retirement.

C. June 1, 2028—BackDROP date

Joe elected a three-year BackDROP at retirement. Retirement benefits will be calculated using Joe's service and final average pay as of his BackDROP date.

D. June 1, 2028—June 1, 2031—BackDROP period

BackDROP lump sum is based on 90% of the retirement benefit Joe would have received during his BackDROP period (had he retired on the BackDROP date).



BackDROP Election

No action is required until you complete the *Retirement Election Form*.

Step one of the retirement process is submission of the *Notice of Retirement*. MPERS will use the information from your *Notice of Retirement* to generate a personalized step-two packet that includes the *Retirement Election Form*. If you are eligible for BackDROP, this is indicated on the *Retirement Election Form*. Also included in the step-two packet is the *BackDROP Distribution Form*. This form directs MPERS on how you would like to receive your lump-sum payment—cash, rollover, or a combination of the two.



Payment Methods

If you elect BackDROP, you must submit a *BackDROP Distribution Form*, which will be included in your step-two packet and directs MPERS on how you wish to receive your BackDROP payment. There are three payment methods for BackDROP lump sums.

Cash Option—The BackDROP distribution is electronically deposited into the same account authorized for monthly retirement benefit payments. MPERS is required by law to withhold 20% of a cash distribution and send it to the IRS as a federal income tax payment. 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 the 10% additional early distribution tax in addition to standard income tax. Applicable state taxes may apply but will not be withheld from the payment. For more information, consult our *Special Tax Notice* brochure and/or a tax professional.

Rollover Option—The BackDROP distribution is made directly to a qualified individual retirement account (IRA) or employer plan. Income tax is not withheld from the rollover amount; however, once you begin receiving distributions from the receiving account, taxes will be withheld at that time. If you roll over a lump-sum payment from MPERS to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed.

Combination Cash and Rollover Option—This option allows you to specify how much of the payment to receive as cash and how much is rolled over to a qualified account or plan. The combination option has the same tax implications as mentioned in the cash option and the rollover option.

BackDROP Considerations

- Electing to take the BackDROP payment option may reduce your monthly benefit amount.
- If you elect to receive the lump-sum payment in cash, it may result in increased federal and state income tax liability.
- Credited service and salary earned during the elected BackDROP period will not be used in calculating the monthly benefit amount or lump-sum payment amount.
- Know the tax implications 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, which is available on our website www.mpers.org. We recommend you contact a tax consultant or financial advisor before electing a payment method.*

The contents of this brochure do not amend or overrule any applicable statute or administrative rule. In the event of conflict, the applicable statute or administrative rule will prevail.

