

Deferred Retirement

Public Employees' Retirement System • Teachers' Pension and Annuity Fund • Police and Firemen's Retirement System

Deferred Retirement is available if you have at least ten years of service credit upon terminating employment but do not yet meet the “retirement age” requirement set forth by the State-administered retirement systems. You will begin receiving a retirement allowance on the first of the month after attaining “retirement age.”

You must file an *Application for Retirement Allowance* with the Division of Pensions and Benefits for the Deferred Retirement to take effect. You can apply for a Deferred Retirement when you terminate covered employment or any time prior to attaining the “retirement age” requirement. Under no circumstances can a Deferred Retirement become effective prior to the date the application is received by the Division of Pensions and Benefits.

If a member is removed from employment for cause, the member will be ineligible for Deferred Retirement.

PERS AND TPAF MEMBERS

With the passage of recent legislation the enrollment and retirement criteria has changed for PERS and TPAF members enrolled as of certain dates. These differences in PERS and TPAF membership — referred to as “**membership tiers**” are defined as follows:

- **Membership Tier 1** — Members who were enrolled *prior to* July 1, 2007.
- **Membership Tier 2** — Members who were eligible to enroll *on or after* July 1, 2007 and *prior to* November 2, 2008 — pursuant to the provisions of Chapters 92 and 103, P.L. 2007.
- **Membership Tier 3** — Members eligible to enroll *on or after* November 2, 2008 and *on or before* May 21, 2010 — pursuant to the provisions of Chapter 89, P.L. 2008.
- **Membership Tier 4** — Members eligible to enroll *after* May 21, 2010 and *before* June 28,

2011 pursuant to the provisions of Chapter 1, P.L. 2010.

- **Membership Tier 5** — Members eligible to enroll *on or after* June 28, 2011 — pursuant to the provisions of Chapter 78, P.L. 2011.

The Deferred Retirement “retirement age” requirement for Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) members is age **60** for **Tier 1** and **Tier 2** members, age **62** for **Tier 3** and **Tier 4** members, and age **65** for **Tier 5** members. Therefore, your retirement date is the first of the month following your 60th or 62nd birthday depending on your membership tier. Your retirement allowance is based on the Service Retirement formulas shown below:

The formula to calculate the maximum annual pension for **Tier 1, Tier 2** and **Tier 3** is:

$$\frac{\text{Years of Service}}{55} \times \text{Final Average Salary} = \text{Annual Retirement Allowance}$$

The formula to calculate the maximum annual pension for **Tier 4** and **Tier 5** is:

$$\frac{\text{Years of Service}}{60} \times \text{Final Average Salary} = \text{Annual Retirement Allowance}$$

‘**Years of Service**’ means the years and months of pension service credited to your account.

‘**Salary**’ means base salary on which pension contributions are taken. It does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

‘**Final Average Salary**’ for **Tier 1, Tier 2,** and **Tier 3** members, means the average salary for the 36 months (30 months for employees with 10 month contracts) immediately preceding your retirement. If your last three years are not your highest years of salary, your allowance will be calculated using your three highest fiscal years (July - June) of salary. If

this is the case, you must indicate it on your retirement application.

For **Tier 4** and **Tier 5** members, Final Average Salary is the average of your salary for the last 60 months (50 months for employees with 10 month contracts) immediately preceding your retirement. If your last five years are not your highest years of salary, your allowance will be calculated using your five highest fiscal years (July - June) of salary.

Note: If your last years of salary are not your highest years, you must indicate it on the retirement application.

PFRS MEMBERS

Retirement age for members of the Police and Firemen's Retirement System (PFRS) is age **55**. Therefore, if you terminate employment prior to your retirement age your retirement allowance will begin the first of the month following your 55th birthday. The retirement allowance is equal to 2% of your Final Compensation for each year of service. For example, a member who terminates employment after 11 years with a Final Compensation of \$35,000 will receive 22% of \$35,000 for an annual retirement allowance of \$7,700.

For PFRS members enrolled on or before May 21, 2010 Final Compensation means the base salary on which pension contributions are taken for the 12 months immediately preceding your termination of employment. It does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

For PFRS members enrolled after May 21, 2010 Final Compensation means the average of the last three *fiscal years* base salary or highest three fiscal years base salary on which pension contributions are based. It does not include extra pay for overtime, bonuses, housing/uniform allowances, etc.

SURVIVOR BENEFITS

If you die between the time you terminate employment and your retirement becomes effective, the last named beneficiary will receive the return of your pension contributions. There is no other death benefit under these circumstances.

For more information about survivor's benefits once your retirement goes into effect see Fact Sheet #5,

Pension Options (PERS and TPAF members) or Fact Sheet #19, *Applying for Retirement* (PFRS members).

GROUP LIFE INSURANCE

If you had group life insurance through employment when your Deferred Retirement becomes effective:

- PERS members will have a paid-in-full death benefit equal to 3/16ths of their salary:
- TPAF members who did not participate in contributory insurance will have a paid-in-full death benefit equal to 3/16ths of final salary while those who did participate in contributory insurance will have a paid-in-full death benefit equal to 7/16ths.
- PFRS members will have a paid-in-full death benefit equal to 50% of their final salary.

Your group life insurance coverage is not in effect between the time you terminate employment and when your Deferred Retirement becomes effective. If you wish to convert your coverage to private policy, see Fact Sheet #13, *Conversion of Group Life Insurance*, which is available from your employer, by contacting the Division of Pensions and Benefits, or via the Internet at:

www.state.nj.us/treasury/pensions

HEALTH BENEFITS

Members electing Deferred Retirement cannot transfer their active health care coverage to the retired group of the State Health Benefits Program (SHBP) or School Employees' Health Benefit Program (SEHBP) (This does not include members of TPAF who elect to defer retirement with 25 or more years of service credit in the pension fund or school board or county college employees with 25 or more years of service credit in PERS.).

Note: You may be eligible for health benefits coverage because of federal 'COBRA' legislation, for up to 18 months if you were covered by the SHBP or SEHBP just prior to terminating employment. If your Deferred Retirement allowance begins while the 18 months of COBRA coverage is in effect, you may be eligible to join one of the retiree health benefit programs administered by the State and continue this coverage into retirement. If the 18 months of COBRA

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coverage ends before the retirement commences, you are not entitled to maintain health coverage through the SHBP or SEHBP at retirement.

RETURNING TO PUBLIC EMPLOYMENT IN NEW JERSEY

Most private employment will not affect your retirement benefits. If, *prior to your Deferred Retirement date*, you return to a position covered by the same retirement system, within 24 months of terminating employment, you can cancel your retirement and resume contributing to your previous account in the retirement system.

If, *prior to your effective retirement date*, you return to public employment following a break in service of more than 24 months, you will be enrolled in a new account under the membership tier that is in effect at the time of reemployment regardless of any prior retirement system membership, even if you are vested in a former account.

If you cancel your Deferred Retirement and are ready to retire or leave employment again, you must submit a new retirement application.

For more information regarding returning to employment after retirement, PERS members should see Fact Sheet #21, TPAF members should see Fact Sheet #28, and PFRS members should see Fact Sheet #29.

OUTSTANDING LOAN BALANCES

If you have an outstanding loan balance at the time you defer your retirement, you can repay the outstanding loan balance in its entirety. However, if you are unable to repay your outstanding loan balance prior to separation from employment your options are specifically determined by when the loan was taken:

Repayment for loans taken prior to January 1, 2002 can be “deferred” and upon your retirement be deducted from your retirement check(s). Keep in mind that interest will accrue from the time you leave employment until your retirement is effective and, once effective, until the loan is satisfied. Deductions for the loan should be the monthly equivalent of the amount deducted from your paycheck prior to retirement.

For loans taken after January 1, 2002, you will be offered the following options:

- You repay the loan in monthly installments to the Division through **personal billing**. If your retirement becomes effective and you begin receiving retirement checks prior to paying off your loan, the payment toward your outstanding loan balance will then be deducted from monthly retirement check (provided your retirement allowance has sufficient funds for the monthly payment). All loan payments should be the monthly equivalent of the amount deducted from your paycheck prior to retirement.; or
- Take a **taxable distribution** on the balance of the loan. In accordance with Internal Revenue Section Code 72(p) regulations, failure to remit loan payments will result in declaring the remaining amount as a taxable distribution and subsequently may also be subject to additional IRS regulations. If your loan is deemed a taxable distribution it will be your responsibility to make an estimated tax payment to the IRS to cover your tax liability as no withholding will be deducted from your account and forwarded to the IRS by the Division. In addition, if you are under age 59½, you will be required to pay an additional ten percent tax for taking an early pension distribution. A distribution does not cancel the outstanding loan balance and interest will continue to accrue. Upon your effective retirement date, the loan payment will resume and be deducted from your retirement check.

ARREARS (PURCHASE) BALANCES

If you have an outstanding arrears (purchase) balance, and you have not had installment payments made toward that balance for two years due to inactivity in the account, the Division will cancel the remainder of the purchase and provide you with a pro rata credit for the service purchased to the date the installment payments ceased. You may also pay for the arrearage in full within 60 days of Division notice. If the cancellation of this purchase will bring your total service credit under 10 years, you will not be eligible for a Deferred Retirement.

For a member who had authorized a purchase of service credit prior to September 8, 2008 and is not

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being paid by the employer, the purchase shall remain outstanding but the purchase balance shall include additional regular interest beginning September 8, 2010, or on the date salary stopped, whichever is later.

WITHDRAWING YOUR CONTRIBUTIONS

At any time before your Deferred Retirement becomes effective, you may change your mind and apply for a withdrawal of your contributions instead. Once you cancel your Deferred Retirement and withdraw your contributions, all rights and privileges of membership end.

POINTS TO PONDER

- If you move after you defer your retirement, be sure to provide the Division of Pensions and Benefits with your new address.
- Members of the PERS or TPAF may change their retirement option selection and/or beneficiary(ies) up to 30 days after their retirement date.
- The beneficiaries for your retired group life insurance may be changed at any time by filing a *Designation of Beneficiary* form

AVAILABLE FACT SHEETS

The Fact Sheets mentioned in this publication can be viewed and printed from the Division's Web site at:
www.state.nj.us/treasury/pensions

Fact Sheet #5, *Pension Options (PERS & TPAF)*

Fact Sheet #11, *Enrolling in the State Health Benefits Program When You Retire*

Fact Sheet #13, *Conversion of Group Life Insurance*

Fact Sheet #21, *Employment After Retirement (PERS)*

Fact Sheet #28, *Employment After Retirement (TPAF)*

Fact Sheet #29, *Employment After Retirement (PFRS)*

If you do not have Internet access, you can request that fact sheets be sent to you by calling the Division of Pensions and Benefits, Office of Client Services at (609) 292-7524.

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This fact sheet is a summary and not intended to provide total information.

Although every attempt at accuracy is made, it cannot be guaranteed.
