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PENSIONS FOR TEACHERS, A PRACTICAL HANDBOOK ON PENSIONS AND RELATED SUBJECTS FOR TEACHERS IN PUBLIC SCHOOLS AND MUNICIPAL COLLEGES OF THE CITY OF NEW YORK.
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DESCRIPTORS- *TEACHERS, *TEACHING CONDITIONS, *PERSONNEL POLICY, *PUBLIC SCHOOL TEACHERS, UNIONS, *WELFARE, NEW YORK CITY

THIS COMPREHENSIVE HANDBOOK EXPLAINS THE MAJOR BENEFITS PROVIDED BY THE NEW YORK CITY TEACHERS' RETIREMENT SYSTEM. PROCEDURES ARE GIVEN FOR CALCULATING RETIREMENT ALLOWANCES UNDER THE VARIOUS PLANS AVAILABLE AND DEATH BENEFITS EITHER BEFORE OR AFTER RETIREMENT. SOCIAL SECURITY PROVISIONS, TAXES ON RETIREMENT INCOME, LOAN PRIVILEGES, WORK AFTER RETIREMENT, AND PERTINENT COURT DECISIONS AND THEIR IMPLICATIONS FOR PENSION MATTERS ARE DISCUSSED. THIS HANDBOOK IS ALSO AVAILABLE FROM THE UNITED FEDERATION OF TEACHERS, LOCAL 2, 300 PARK AVENUE SOUTH, NEW YORK CITY. (HF)

# Pensions for Teachers

LOUIS A. GOLDMAN
ELLIS JOHNSON
DAVID M. WITTES

# PENSIONS FOR TEACHERS

***A Practical Handbook on Pensions and Related Subjects for Teachers in the Public Schools and Municipal Colleges of the City of New York***

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# FOREWORD

THIS PENSION book fills a real need. It brings up to date and enlarges the scope of our previous publication on pensions, *"Your Pension Problems—How To Solve Them"* by Dr. Ellis Johnson.

The authors of this book have spent many years in the study of pensions. They have given pension advice to thousands of teachers. Through their writings and lectures, they have clarified for teachers many technical features of the Retirement Law. Their knowledge and experience give added assurance to the reader concerning the accuracy of the information presented in the book.

The explanations throughout the book are clear and concise. The tables will enable the teacher to make his own calculations. *Many of the tables have never before appeared in any publication.* To give meaning to the explanations and the tables, the authors include many illustrations throughout the book.

The United Federation of Teachers takes pride in offering this book to the teachers of the City. We are deeply appreciative of the task performed by the authors in preparing this outstanding work. We are most grateful to them—all members of the United Federation of Teachers and former chairmen of its Pension Committee—Dr. Louis A. Goldman, Dr. Ellis Johnson and Mr. David M. Wittes.

CHARLES COGEN, *President*
United Federation of Teachers

# PREFACE

THE CHIEF objectives of this book are to explain the important benefits provided by the Teachers' Retirement System and to enable the teacher to calculate the amount of his retirement allowance under the various retirement plans available to him. It will also show how to calculate the amounts that beneficiaries will receive when the teacher dies either before or after retirement. In addition, several topics related to a teacher's retirement, such as Social Security and taxes, are explained and illustrated.

The book contains much information which, it is hoped, will be useful for the younger teachers, as well as for those with many years of teaching experience. There are included explanations of recent changes affecting members of the Retirement System, such as the "Death Gamble" law, the "Saypol" decision, the liberalized loan privilege, and the five-percent contributions by the city to provide teachers with increased take-home pay. To enable the teacher to make the desired calculations, extensive tables *applicable to all teachers* in New York City are given. Illustrations, carefully chosen, make clear to the reader how the tables are applied.

We are indeed grateful to many friends and colleagues in the pension field for their suggestions and assistance in the preparation of this work.

Our labors will be amply rewarded if this book will prove helpful to our fellow teachers.

LOUIS A. GOLDMAN
ELLIS JOHNSON
DAVID M. WITTES

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CHAPTER I

# INTRODUCTION

THE TEACHERS' Retirement System of the City of New York was established on August 1, 1917. It replaced the former inadequate New York City Teachers' Retirement Fund. The present Retirement System is operated on a reserve basis. Both the city and the teachers contribute regularly toward future retirement allowances to teachers and death benefits to the beneficiaries. The assets of the System are now one and one-quarter billion dollars.

The income which the retired teacher receives from the Retirement System is called his RETIREMENT ALLOWANCE. The retirement allowance consists of two distinct parts:

(1) a PENSION derived from the contributions by the city, and
(2) an ANNUITY resulting from the contributions by the teacher.

Until July 1960, the teachers and the city were expected to contribute approximately equal amounts. However, since July 1960, the city has assumed the payment of a part of the teacher's contributions. At present, when a teacher's normal contribution is, say, 12% of his salary, the city will pay 5% of the salary for him; the teacher need pay only 7%. In the case of a teacher whose normal rate is 9%, the teacher need only pay 4% of his salary; the city will pay 5% for him. In general, whatever the teacher's normal rate of contribution, his actual rate will be less by 5% of the salary. The city will pay the 5%. The city pays this in addition to the normal rate that the city has been contributing.

In effect, then, the pension part of the teacher's retirement allowance now consists of two separate amounts: (a) a *normal pension* resulting from the normal contributions of the city and (b) a *special pension* from the additional 5% contribution by the city, explained above. These two amounts, the normal pension and the special pension, constitute the pension part of the teacher's retirement allowance.

## ELIGIBILITY FOR RETIREMENT

*Regular service retirement.* There are two general plans of service retirement:

(1) A teacher is eligible for service retirement when he has acquired a total service credit of 35 years *or* when he has reached age 65, whichever comes first.

(2) Under a law enacted in 1959, a teacher may elect to retire for service if he has reached age 55 *and* has completed 30 years of service. This plan requires higher rates of contribution by the teacher and the city than does the other plan.

A teacher under either plan may, if he wishes, continue in service until the end of the school year (August 31st) in which he reaches age 70; retirement is mandatory on the following day, September first.

*Demand Retirement.* A teacher may retire "on demand" after he has completed 30 years of service, even if his age is below 55. However, "demand" retirement yields a much lower retirement allowance than retirement after 30 years if one has reached age 55.

*Veterans' retirement.* A war veteran with 25 years of credited service may elect to retire at age 50, provided he makes a lump sum payment at retirement. The lump sum required in practically every case is so large that very few teachers have been able to avail themselves of this provision of the retirement law.

*Disability retirement.* A teacher is eligible for disability retirement when he has completed ten years of city service, provided he is found to be physically or mentally incapable of performing his school duties.

## PROVISION FOR BENEFICIARIES

When a teacher retires, either for service or for disability, he may provide that, upon his death, certain benefits shall be paid to his beneficiaries. Making provision for beneficiaries at the time of retirement is known as selecting an OPTION. There are several different options available. Some of the options are relatively inexpensive to the teacher; some are quite costly. It is important to note that, while the teacher may provide for his dependents or other beneficiaries, he does so by reducing his own *maximum* retirement allowance.

The law also provides for payments to beneficiaries when a teacher dies BEFORE he has retired. We must distinguish these two situations:

*Situation A*: When the teacher dies BEFORE he has become eligible for *service* retirement.

*Situation B*: When the teacher dies AFTER he has become eligible for *service* retirement and BEFORE he has actually retired.

What is the difference in benefits under Situation A as compared with Situation B?

In either case (A or B), the teacher's own contributions (with interest) are paid to the beneficiaries.

The difference between A and B is in the Death Benefit that is paid from city funds to the beneficiaries. The Death Benefit under Situation B is much more generous than under Situation A.

When the teacher dies BEFORE he becomes eligible for service retirement, the DEATH BENEFIT will generally vary between the salary of the teacher for a half year and a full year.

When the teacher dies AFTER he becomes eligible for service retirement and BEFORE he has actually retired, the DEATH BENEFIT will rarely be less than two years' salary and may be as high as the teacher's salary for five years. In most cases, the DEATH BENEFIT will approximate the salary for three to four years.

A more detailed explanation of death benefits will be given in a later chapter.

Similarly, other topics, briefly mentioned in this chapter, will be discussed more fully.

## CHAPTER 2

# THE ANNUITY—SERVICE RETIREMENT

THE PRINCIPAL question asked by a teacher contemplating retirement is, "How large will my retirement allowance be?" We shall now explain how to determine this amount when a teacher retires for service.

We begin with the case where no option is chosen, that is, where no provision is made for beneficiaries upon the death of the retired teacher. If a teacher does not select an option he is said to retire on a MAXIMUM retirement allowance. Whether a teacher selects an option or not, the Actuary of the Retirement System first calculates the maximum pension and the maximum annuity. In later chapters, we shall show how to calculate the retirement allowance where the teacher chooses one of the various options available to him.

The retirement allowance, it will be recalled, consists of a *pension* from funds furnished by the city and an *annuity* from contributions by the teacher. The teacher's contributions, with interest compounded annually, are credited to his individual Annuity Account at the Retirement Office. We shall first indicate how to calculate the annuity part of the maximum retirement allowance.

### THE ANNUITY TABLE

The annuity depends upon the amount in the teacher's annuity fund, the age and sex of the teacher, and his date of appointment to the city school system or the municipal colleges. Table 1 gives the annuity for each dollar in a teacher's annuity fund at the time of service retirement. This table will enable *every* appointed teacher to determine the annuity part of his maximum retirement allowance. The need for three sets of figures in Table 1 is explained later in this chapter.

## TABLE I

## ANNUITY PER DOLLAR IN ANNUITY FUND*

### Service Retirement

| Age at Ret. | TABLE IA Teacher Appt'd Before Sept. 1943 | | TABLE IB Teacher Appt'd After Aug. 1943 & Before July 1947 | | TABLE IC Teacher Appt'd After June 1947 | | Age at Ret. |
|---|---|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | Man | Woman | |
| 50 | .0749 | .0677 | .0695 | .0645 | .0623 | .0573 | 50 |
| 51 | .0765 | .0690 | .0709 | .0656 | .0637 | .0584 | 51 |
| 52 | .0782 | .0704 | .0724 | .0668 | .0653 | .0596 | 52 |
| 53 | .0800 | .0719 | .0741 | .0681 | .0669 | .0609 | 53 |
| 54 | .0819 | .0735 | .0758 | .0695 | .0686 | .0623 | 54 |
| 55 | .0839 | .0752 | .0776 | .0709 | .0705 | .0637 | 55 |
| 56 | .0861 | .0770 | .0796 | .0724 | .0724 | .0653 | 56 |
| 57 | .0884 | .0789 | .0817 | .0741 | .0745 | .0669 | 57 |
| 58 | .0909 | .0810 | .0839 | .0758 | .0767 | .0686 | 58 |
| 59 | .0935 | .0831 | .0862 | .0776 | .0791 | .0705 | 59 |
| 60 | .0963 | .0854 | .0887 | .0796 | .0816 | .0724 | 60 |
| 61 | .0993 | .0879 | .0914 | .0817 | .0843 | .0745 | 61 |
| 62 | .1025 | .0905 | .0943 | .0839 | .0871 | .0767 | 62 |
| 63 | .1060 | .0933 | .0974 | .0862 | .0902 | .0791 | 63 |
| 64 | .1096 | .0963 | .1007 | .0887 | .0934 | .0816 | 64 |
| 65 | .1136 | .0995 | .1042 | .0914 | .0969 | .0843 | 65 |
| 66 | .1178 | .1030 | .1079 | .0943 | .1007 | .0871 | 66 |
| 67 | .1224 | .1067 | .1120 | .0974 | .1047 | .0902 | 67 |
| 68 | .1272 | .1106 | .1163 | .1007 | .1090 | .0934 | 68 |
| 69 | .1325 | .1148 | .1209 | .1042 | .1136 | .0969 | 69 |
| 70 | .1381 | .1194 | .1259 | .1079 | .1186 | .1007 | 70 |
| 71 | .1442 | .1242 | .1313 | .1120 | .1239 | .1047 | 71 |

* Also special pension per dollar in special pension reserve upon retirement for service.

*Proceed as follows:*

1. Find the amount in your annuity fund as of the date of retirement.
   (a) Note the final balance given in the annual statement of your annuity fund that you last received from the Retirement Office.
   (b) To the final balance in (a) add interest thereon at the rate of 4% per year if you were appointed before July, 1947 (3%, if appointed after June, 1947) from the date of the statement to the first day of the month of retirement.
   (c) Also add actual contributions made by you for retirement

purposes from the date of the annuity statement in (a) to the date of retirement. (This may usually be ascertained by noting the amount in the "Pension" column of the stub accompanying your monthly check.) The interest on these contributions may be disregarded.

2. Find your age *to your nearest birthday* at the date of retirement.
3. Multiply the amount in your annuity fund at date of retirement by the decimal shown in the appropriate column of Table 1. Make sure you use Table 1A or 1B or 1C, corresponding to your original date of appointment.

## ILLUSTRATIONS

*Example 1*: Miss A, appointed in 1920, retires for service at age 60. The balance in her annuity fund at the time of retirement is $30,000. How large will the annuity part of her retirement allowance be?

Since Miss A was appointed before September 1943, Table 1A is used. This table shows that a woman teacher of 60 will receive an annuity of $.0854 for each dollar in her annuity fund. Hence, Miss A's annuity will be $30,000 x .0854, or $2562 per year for life.

The city's contributions will provide the pension part of Miss A's retirement allowance. Together, the annuity and the pension comprise the teacher's maximum retirement allowance.

*Example 2*: Mr. B, appointed in 1945, expects to retire for service at age 65. Assume that his contributions with interest amount to $32,000. What will be the amount of the annuity part of Mr. B's retirement allowance?

Mr. B was appointed after August 1943 and before July 1947. Hence, Table 1B must be used. This table shows that a male teacher, age 65, will receive $.1042 for each dollar in his annuity fund. Accordingly, Mr. B's annuity will amount to $32,000 x .1042, or about $3,334 annually for life. In addition, B will receive a pension from the city.

*Example 3*: Mrs. C, appointed in September 1947, plans to retire for service at age 55 when she will have completed 30 years of service. Assuming that her annuity fund will be $33,000, how large an annuity will she receive?

Since Mrs. C was appointed after June 1947, we must use Table 1C in order to calculate the annuity part of her retirement allowance. According to this table, a woman teacher retiring at age 55 will receive $.0637 per year for each dollar in her annuity fund.

Hence, Mrs. C's annuity will be $33,000 x .0637, or about $2,102 yearly for life. In addition, Mrs. C will receive a pension from the city. The calculation of the pension part of the retirement allowance will be treated in the two chapters that follow.

## WHY THREE TABLES?

At this point, it is well to explain the need for the three separate sections of Table 1.

From 1917 to 1934, the Retirement Board calculated the annuity part of the retirement allowance on the basis of the mortality table adopted in 1917 with interest at 4% on the balance in the teacher's annuity account. On January 1, 1934, the Board adopted a new mortality table recommended by the actuary. This was done in compliance with the Teachers' Retirement law which directs the actuary to make such recommendation, if necessary, based on an actuarial investigation every five years. Because of increased longevity of teachers, the annuity table based on the 1934 mortality table was less favorable to the teacher than that used previously.

In 1943, the actuary recommended another change in the mortality table; this was adopted by the Retirement Board in June 1943. The annuity table resulting therefrom was less favorable to the teacher than the 1934 table. The Board decided that the 1943 mortality table was to be used for all teachers appointed on and after September 1, 1943, and for "new entrants"* already in service who will retire on or after September 1, 1944. Since the retirement law provides that a "present teacher"* shall be guaranteed an annuity based on the 1934 table, the 1943 table could not be applied to him.

However, the State Court of Appeals in January 1961, decided that the Retirement Board wrongfully applied the 1943 table when it calculated the annuities of those teachers who were appointed *prior to September 1, 1943*. The Retirement Board was ordered to recalculate the annuities of these teachers in accordance with the decision. (A brief discussion of this decision is given in the closing section of this chapter.)

Let us turn to the three parts of Table 1. Table 1A gives the annuity calculated on the basis of the 1934 table with interest at 4%. It is now used for *all teachers* appointed before September 1, 1943. Table 1B is based on the 1943 table with interest at 4%. It is

* A "present teacher" is one who was a teacher in the public schools on August 1, 1917, or a teacher at Hunter College on September 17, 1918, or a teacher at City College on June 1, 1923. All others are "new entrants." Unless otherwise noted, the word "teacher" in this work designates a "new entrant."

used for all teachers appointed on or after September 1, 1943 but prior to July 1947.

For all teachers appointed before July 1, 1947, interest on their contributions is credited at the rate of four percent per year, compounded annually. In 1947, the State Legislature passed an amendment to the Teachers' Retirement law reducing the rate of interest on the annuity accounts of teachers appointed on or after July 1, 1947 to three percent.

Accordingly, the actuary prepared a new annuity table, based upon the same mortality table as that used in the preparation of the 1943 annuity table, but with interest calculated at the rate of three percent instead of four percent. Table 1C is that table. It is used in calculating the annuities of all teachers appointed on or after July 1, 1947; these teachers are often referred to as "three percent contributors."

## THREE PERCENT CONTRIBUTORS

One final statement concerning Table 1C. A bill has been introduced in the legislature each year during the past several years to amend the retirement law so that teachers appointed on or after July 1, 1947 will henceforth receive interest at the rate of four percent on their annuity contributions. The low yield on safe investments which prevailed at the time may have justified the reduction of the interest rate on contributions of newly appointed teachers to three percent in 1947.

The situation has changed markedly in recent years. The current investments of funds of the Teachers' Retirement System yield four percent or higher. The new policy of investing retirement funds in high grade corporate bonds and guaranteed mortagages will tend to increase still further the yield of Retirement Board investments. Yet, as this book goes to press, all teachers appointed on or after July 1, 1947, *who comprise nearly two-thirds of all teachers in service,* receive but three percent interest on their contributions.

## LEGISLATIVE ACTION

In 1962, both the Senate and the Assembly passed a bill granting four percent interest on contributions of teachers appointed on or after July 1, 1947. Unfortunately, the bill was vetoed by the Governor. A similar bill will probably be introduced at future sessions of the Legislature.

## COURT OF APPEALS DECISION

An explanation of the calculation of the annuity part of a teacher's retirement allowance would be incomplete without a brief discussion of the far-reaching effects of the important decision rendered by the Court of Appeals on January 16, 1961. The background is as follows:

Under the retirement law, the actuary must make an actuarial investigation of the mortality rate of its contributors (teachers) every five years, and recommend to the Retirement Board the adoption of such tables as are deemed necessary as a result of the investigation.

On two occasions (in 1934 and 1943) during the existence of our Retirement System, the actuary recommended the adoption of revised mortality tables based on the longer life-span of teachers. These revised tables resulted in reduced annuities payable to teachers on retirement. The 1934 revision reduced the annuities payable on retirement to *all* teachers in service on January 1, 1934. The 1943 table was applied *only* to "new entrants"; under the retirement law "present teachers" are guaranteed an annuity based on the 1934 tables.

In 1958 several teachers filed suit to compel the Teachers' Retirement Board to use the 1934 mortality table for all teachers appointed prior to September 1, 1943, basing their case on the provision of the State Constitution that *after July 1, 1940,* membership in a city or state retirement system, such as ours, "shall be a contractual relationship, the benefits of which shall not be diminished or impaired."

The Supreme Court sustained the teachers. The following year the Appellate Division unanimously upheld the decision of the lower court. Finally, in January 1961, the Court of Appeals unanimously decided in favor of the teachers.

## EFFECT OF DECISION

As a result of this important decision, all new entrants appointed *before September 1943* will have their annuities calculated on the basis of the more favorable 1934 table, and will therefore receive larger annuities.

All teachers appointed *after August 1943* are now guaranteed by the Court decision that their retirement annuities will not be reduced in future years as a result of the adoption of new mortality tables by the Retirement Board. If new tables are adopted, they can be applied only to teachers appointed after those tables have been adopted.

In the case of teachers already retired from service, the Retirement Board was required to recalculate their annuities in accordance with the Court of Appeals' decision. The Board has since paid these retired teachers, or their surviving beneficiaries or estates, a lump sum equal to the difference due them plus interest to the date of payment.

The Court decision does not affect the annuities of teachers retired for disability because there has been no change in the table used to calculate disability retirement annuities after July 1, 1940, the effective date of the State constitutional safeguard stated above. However, teachers who will retire for disability in the future are guaranteed by the decision that the Retirement Board may not reduce their annuities by adopting new mortality tables.

CHAPTER 3

# THE NORMAL PENSION—SERVICE RETIREMENT

THE PRECEDING chapter dealt with the annuity part of the retirement allowance. This chapter and the next one will show how to calculate the pension part of the retirement allowance.

As stated in the first chapter, the pension, which comes from contributions by the city, consists of two separate parts:

(a) a *normal pension* resulting from the city's normal contributions and (b) a *special pension* derived from the additional payment assumed by the city since July 1960. (This additional payment—which we shall refer to as the city's *special* contribution—consisted of 2½% of the teacher's salary during the year 1960-1961; thereafter it has been 5%.) This chapter will concern itself with the normal pension only. Chapter 4 will deal with the special pension.

## AVERAGE SALARY

The normal pension part of a teacher's retirement allowance depends upon his "average salary." As used in the Retirement law, "average salary" generally means the average annual salary for the last five years prior to the date of retirement.

Table 2 gives the average salaries of teachers, supervisors and secretaries eligible for service retirement on September 1, 1963 and on September 1 of the seven succeeding years. It is a simple matter to make the interpolation for the approximate average salary on a date other than September 1 of any year between 1963 and 1970.

The figures in Table 2 include maximum salaries in salary schedules of teachers adopted by the Board of Education on January 8, 1964. The average salaries given in the table for secretaries and supervisors include maximum salaries in schedules that are expected to be adopted by the Board of Education. The figures shown in the table will change with future changes in salary schedules.

TABLE 2

## AVERAGE SALARIES FOR FIVE-YEAR PERIOD PRIOR TO RETIREMENT

| Ret. Date Sept. 1 | NO PROMOTIONAL DIFF. Teacher no. diff. A | Teacher + 1 diff. B | Teacher + 2 diff. C | PLUS PROMOT'L DIFF. Teacher + 1 diff. D | Teacher + 2 diff. E |
|---|---|---|---|---|---|
| 1963 | $ 8355 | $ 8755 | $ 9155 | $ 8866 | $ 9266 |
| 1964 | 8686 | 9086 | 9486 | 9292 | 9692 |
| 1965 | 8993 | 9393 | 9793 | 9727 | 10127 |
| 1966 | 9233 | 9633 | 10033 | 10112 | 10512 |
| 1967 | 9386 | 9786 | 10186 | 10394 | 10794 |
| 1968 | 9452 | 9852 | 10252 | 10510 | 10910 |
| 1969 | 9500 | 9900 | 10300 | 10608 | 11008 |
| 1970 | 9500 | 9900 | 10300 | 10625 | 11025 |

| Ret. Date Sept. 1 | Sch. Secy. no diff. F | Sch. Secy. + diff. G | Sr. S. Secy. no diff. H | Sr. S. Secy. + diff. J | Ass't Princ. K |
|---|---|---|---|---|---|
| 1963 | $ 5623 | $ 5750 | $ 6093 | $ 6173 | $10443 |
| 1964 | 5882 | 6049 | 6356 | 6476 | 11050 |
| 1965 | 6115 | 6315 | 6583 | 6743 | 11653 |
| 1966 | 6281 | 6481 | 6751 | 6951 | 12194 |
| 1967 | 6387 | 6587 | 6857 | 7057 | 12588 |
| 1968 | 6435 | 6635 | 6905 | 7105 | 12757 |
| 1969 | 6470 | 6670 | 6940 | 7140 | 12901 |
| 1970 | 6470 | 6670 | 6940 | 7140 | 12925 |

| Ret. Date Sept. 1 | H.S. Chairman L | Junior Principal M | El. Sch. Principal N | J.H.S. Principal P | H.S. Principal R |
|---|---|---|---|---|---|
| 1963 | $10843 | $10962 | $12761 | $13522 | $16683 |
| 1964 | 11450 | 11617 | 13460 | 14278 | 17495 |
| 1965 | 12053 | 12260 | 14158 | 15042 | 18324 |
| 1966 | 12594 | 12836 | 14785 | 15721 | 19053 |
| 1967 | 12988 | 13254 | 15241 | 16215 | 19583 |
| 1968 | 13157 | 13435 | 15439 | 16431 | 19815 |
| 1969 | 13301 | 13589 | 15607 | 16614 | 20012 |
| 1970 | 13325 | 13615 | 15635 | 16645 | 20045 |

(1) The average salary of a teacher who was granted one salary differential (for 30 credits) or two salary differentials (for 60 credits) will be somewhat smaller than that given in Column B, C, D or E if he has received either differential for a period of less than five years.

(2) The average salary of a teacher who was granted the promotional differential will be somewhat smaller than that shown in Column D or E if the effective date of the promotional differential is subsequent to July 1, 1962.

(3) The average salary of a school secretary or a senior school secretary who was granted a salary differential will be somewhat smaller than that shown in Column G or J if the effective date of the differential is subsequent to July 1, 1960 in the case of the school secretary, and subsequent to September 1, 1961 in the case of the senior school secretary.

(4) Column L is also applicable to High School Administrative Assistant and Teacher-in-Charge of Annex.

## NORMAL PENSION UNDER CLANCY LAW

The vast majority of teachers* now in service have elected coverage under the "one-percent" Clancy law. Under the provisions of this law, the city contributes an amount sufficient to produce a pension of 1% of the average salary multiplied by the number of years of credited service after September 16, 1917,† provided that the teacher has elected to make certain additional contributions to provide a larger annuity in order to satisfy the "matching" requirement in the law.

As a result of the Retirement Board's liberal interpretation of the "matching" requirement, few teachers who have retired under the Clancy law failed to get the full pension benefit of 1% of average salary for each year of service. A relatively small number were required to pay a lump sum at retirement in order to meet the minimum "matching" requirement. Failure to meet the lump sum requirement in such cases resulted in a somewhat smaller pension.

Under an amendment to the Retirement law adopted by the State legislature in 1963, a teacher is no longer required to pay a rate of contribution in excess of 15%. If the rate of contribution needed to provide an annuity equal to the pension from the city is higher than 15%, the teacher may, if he wishes, contribute at the higher rate, *but is not required to do so. As a result of this amendment, all teachers who elected Clancy law coverage will obtain a pension from the city equal to 1% of the average salary multiplied by the number of years of service.* No lump sum will hereafter be required.

In view of this amendment, newly appointed teachers are strongly advised to elect coverage under the Clancy law. (See Chapter 20.)

*Example*: Miss D was appointed in September 1928. She was granted credit for two years prior service as a substitute from

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* See footnote on page 17 for distinction between "present teacher" and "new entrant." A present teacher receives a somewhat larger pension from the city than a new entrant because of teaching service prior to the inception of the Retirement System. There are at present over 43,000 contributors in the Teachers' Retirement System; of this number, fewer than 200 are present teachers. Unless otherwise indicated, the word "teacher" in this book means "new entrant."

† September 16, 1918 for Hunter College contributors; June 1, 1923 for contributors at other municipal colleges.

1925 to 1928. She served continuously in the elementary schools. She was granted a salary differential on the basis of 30 in-service credits subsequent to graduation from teachers' training school. In 1951 she elected coverage under the "one-percent" Clancy law. She retired on September 1, 1963. What was the amount of the normal pension part of her retirement allowance?

Since Miss D was under the Clancy law, she received a pension of 1% of her average salary for each year of credited service. Therefore, her normal pension was 37% of her average salary when she retired on September 1, 1963.

Since she received one salary differential but did not meet the requirement for a promotional differential, the average salary in her case will be found in Table 2, Column B. According to this table, her average salary on September 1, 1963 was $8,755. Thirty-seven percent of $8,755 is $3,239; this was the normal pension part of Miss D's annual retirement allowance when she retired on maximum (without an option) on September 1, 1963. It would have been slightly higher if she had retired later that month. The calculation of the special pension will be explained in the next chapter.

Miss D's own contributions with interest provided the annuity part of her retirement allowance.

## NORMAL PENSION UNDER OLD LAW

For a teacher who is not under the Clancy law the city generally contributes an amount sufficient to provide a pension of 25% of average salary when the teacher retires for service. (Fewer than ten percent of all contributors are now under the old "pre-Clancy" law.)

*Example*: Mr. E was appointed on February 1, 1922. He had no teaching experience prior to appointment. He has served continuously as a high school teacher. He had not elected coverage under the Clancy law. If he retires in September 1964, how large will the normal pension part of his retirement allowance be?

Although Mr. E will have completed more than 42 years of service, his pension will be limited to 25% of his average salary because he had not elected to come under the Clancy 1% pension law. Since he is a pre-1947 high school teacher, his salary is that of a teacher with two differentials plus the promotional differential. His average salary on September 1, 1964, as given in Table 2, Column E, will be $9,692. Twenty-five percent of $9,692 is $2,423. This will be the normal pension part of Mr. E's retirement allowance.

Had Mr. E elected coverage under the Clancy law, his normal pension, upon retirement in September 1964, would have been 42.7%* of $9,692, or $4,138.

* 42% for 42 years of service to February 1964 plus 1/10 of 1% for each of the seven additional months from February to September 1964.

CHAPTER 4

# THE SPECIAL PENSION—SERVICE RETIREMENT

AS EXPLAINED previously, the city has been paying a part of each teacher's contributions for him since July 1, 1960. During the first year (1960-1961), the city assumed the payment of 2½% of the teacher's salary. At present the city is paying 5% of the salary for the teacher. If a teacher's normal contribution is 13% of his salary, the city will pay 5% for him; the teacher need pay only 8%.

The city pays this in addition to the normal rate required to furnish the teacher with a normal pension. This additional payment by the city, plus interest thereon, is used to provide a *special pension* at retirement,* calculated in the same manner as the annuity furnished by the teacher's own contributions. (This additional contribution by the city, with interest, is referred to in the law as the "reserve-for-increased-take-home-pay." The pension resulting from this reserve is called the "pension-providing-for-increased-take-home-pay." We here simply use the terms "special pension reserve" and "special pension," respectively.)

The effect of all this is:

(1) The teacher actually "takes home" an additional 5% of his salary every month, and

(2) His ultimate retirement allowance will be exactly the same as it would have been under the law prior to 1960.

*Example*: Teacher F's annual salary is $8,400, or $700 per month. His normal contribution is 12% of $700, or $84 per month. The city now pays 5% of $700, or $35 per month, for him; this is in addition to the city's normal contribution. The teacher need pay only 7% of $700, or $49 per month.

* This additional payment by the city is also used to furnish an additional death benefit if the teacher dies before he has retired. (See Chapter 18.)

## TABLE 3

## SPECIAL PENSION RESERVE FOR TEACHERS AT RETIREMENT

("Reserve-for-increased-take-home-pay")

### TEACHERS APPOINTED BEFORE JULY 1947

(for teachers on maximum salary only)

| Ret. Date Sept. 1 | Teacher no diff. A | NO PROMOTIONAL DIFF. Teacher + 1 diff. B | NO PROMOTIONAL DIFF. Teacher + 2 diff. C | PLUS PROMOT'L DIFF. Teacher + 1 diff. D | PLUS PROMOT'L DIFF. Teacher + 2 diff. E |
|---|---|---|---|---|---|
| 1963 | $1234 | $1290 | $1347 | $1318 | $1375 |
| 1964 | 1755 | 1834 | 1912 | 1887 | 1966 |
| 1965 | 2309 | 2411 | 2513 | 2499 | 2602 |
| 1966 | 2885 | 3012 | 3138 | 3140 | 3267 |
| 1967 | 3483 | 3635 | 3787 | 3806 | 3958 |
| 1968 | 4106 | 4285 | 4463 | 4499 | 4678 |
| 1969 | 4754 | 4960 | 5166 | 5220 | 5426 |
| 1970 | 5428 | 5663 | 5897 | 5970 | 6205 |

### TEACHERS APPOINTED AFTER JUNE 1947

(for teachers on maximum salary only)

| Ret. Date Sept. 1 | Teacher no diff. F | NO PROMOTIONAL DIFF. Teacher + 1 diff. G | NO PROMOTIONAL DIFF. Teacher + 2 diff. H | PLUS PROMOT'L DIFF. Teacher + 1 diff. J | PLUS PROMOT'L DIFF. Teacher + 2 diff. K |
|---|---|---|---|---|---|
| 1963 | $1218 | $1274 | $1329 | $1302 | $1357 |
| 1964 | 1724 | 1801 | 1879 | 1855 | 1932 |
| 1965 | 2257 | 2357 | 2457 | 2444 | 2545 |
| 1966 | 2807 | 2930 | 3053 | 3056 | 3180 |
| 1967 | 3372 | 3520 | 3667 | 3687 | 3834 |
| 1968 | 3955 | 4127 | 4299 | 4336 | 4508 |
| 1969 | 4555 | 4753 | 4950 | 5004 | 5202 |
| 1970 | 5173 | 5397 | 5621 | 5693 | 5917 |

(1) The special pension reserve of a teacher who was granted one salary differential (for 30 credits) or two salary differentials (for 60 credits) will be somewhat smaller than that shown in each of the columns above if, in his case, the effective date of either differential is subsequent to July 1, 1960.

(2) The special pension reserve of a teacher who was granted the promotional differential will be somewhat smaller than that shown in Column D, E, J or K, if in his case, the effective date of the promotional differential is subsequent to July 1, 1962.

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The figures above are based on maximum salaries of teachers in effect on and after July 1, 1960, including those in salary schedules adopted by the Board of Education on January 8, 1964.

This is an actual gain of $35 in net pay to the teacher every month of that year. Yet, the amount of his retirement allowance will now be the same as it was under the former law when the teacher contributed the full 12% of his salary.

## SPECIAL PENSION RESERVE

The teacher receives an annual statement of the amount in his annuity account. This amount constitutes *his* contributions plus interest. But no such statement relating to his special pension is given to the teacher. Since the special pension comes from the city's contributions, the teacher is entitled to benefits therefrom if he retires. If the teacher should die before retirement, his beneficiary would be entitled to these additional city contributions. However, if the teacher resigns, he forfeits the right to receive these city contributions.

To aid the teacher on maximum salary to determine the amount of the special pension reserve, Table 3 has been constructed. This table gives the amount of the special pension reserve resulting from the additional contributions made by the city since July 1, 1960 on behalf of a teacher on maximum salary. The figures shown include interest at the rate of 4% for teachers appointed before July 1947, and 3% for those appointed after June 1947. The amount of the special pension reserve on dates other than September 1 can be estimated. If salaries of teachers are increased, it will be necessary to make a corresponding adjustment of the figures in the table. Individual calculations of the special pension reserve will have to be made for contributors other than classroom teachers on maximum salary.

*This is important*: The state law, under which the city pays a part of the teacher's contributions for him, authorizes this plan but does not mandate it. It is a temporary arrangement, subject to renewal annually or termination at the will of the city. However, it is reasonable to assume that it will be a permanent feature of the Retirement System. Table 3 and the discussion which follows are based on this assumption.

At retirement, the teacher receives a special pension (in addition to a normal pension) resulting from the special pension reserve. The calculation of the special pension is the same as the calculation of the annuity resulting from the teacher's accumulated contributions. Table 1 on page 15, used to determine the annuity per dollar in the annuity fund, is also used to determine the special pension per dollar in the special pension reserve.

*Example*: Miss G was appointed in 1930 and expects to retire for service in September 1964 at age 56. She received one salary differential in 1955 and the promotional differential on July 1, 1962. She has served continuously since her appointment. How large will the special pension reserve be in her case? How large will the special pension be?

Since Miss G was appointed before July 1947 and since her salary is that of a teacher with one salary differential plus the promotional differential, Table 3, Column D will be used in her case to find the special pension reserve. The figure shown for September 1, 1964 is $1,887.

To determine Miss G's special pension, we turn to the annuity table on page 15. Since Miss G was appointed before September 1943, we use Table 1A. According to this table, a woman teacher retiring at age 56 will receive a special pension of $.0770 per year for each dollar in the special pension reserve. Hence, Miss G's special pension will be $1,887 x .0770, or $145 per year. This will be added to her normal pension; the sum is the pension part of her retirement allowance. We shall return to this example in the next chapter.

## THE WAIVER

The purpose of the arrangement whereby the city pays a part of the teacher's contribution—as stated in the law authorizing the plan—is to provide the teacher with increased take-home pay. We have shown that, while the city now contributes an additional 5% of a teacher's salary for him, the teacher's own contributions are reduced by the same amount.

However, if a teacher prefers to continue to pay his full rate of contribution, he may do so. In this case, he must sign and file a paper that provides for waiving the reduction in his rate. His own ANNUITY fund will then continue to increase by means of his full contribution. The city's contribution of 5% of his salary will continue to be paid—as for all other teachers. This 5% contribution will, at retirement, make the pension part of his retirement allowance larger.

*Example*: Let us assume that Teacher F (page 26) filed a waiver of reduction of contribution. Accordingly, the contribution to his annuity fund would be continued at the full rate of 12% of his monthly salary ($700), namely, $84 per month, even though the city pays 5% of $700, or $35, for him. Since he is paying the full 12% rate, the teacher will not receive any additional "take-home" pay. His retirement allowance will be larger because of the 5% additional contribution made by the city toward the special pension reserve.

It should be added that the teacher, who prefers to pay his full rate, must file the waiver each year, since the waiver is binding for one year only.

## "SHALL I FILE A WAIVER?"

This question is equivalent to asking, "Shall I increase my rate of contribution?" The question can be best answered by the teacher himself. The teacher must decide whether he wishes more income now, or later on during his years of retirement.

He must consider his present financial requirements, as well as his probable needs after retirement. If he prefers more take-home pay, he does *not* file a waiver. If he is willing to do without additional take-home pay now, in order to insure a larger retirement allowance, he files such waiver.

Those who are willing to forego the additional "take-home" pay, in order to accumulate a larger annuity fund for retirement purposes, may file a waiver, but do not have to do so. There may be an advantage in using an alternative method of achieving the same result, namely, by simply filing a change-of-rate blank at the Retirement Office.

He may thus increase his official rate by 3% or 4% or 5% as suits his convenience. This new rate may later be changed by filing another change-of-rate blank. A waiver can be filed or discontinued once a year (usually in June).

However, a teacher who decides to file a change-of-rate blank should be mindful of the fact that once a rate of less than 15% has been officially increased by the teacher to a rate higher than 15%, it may not be possible for the rate to be subsequently reduced to the former rate.*

* A teacher under the Clancy law whose official rate of contribution is more than 15% can have his rate reduced to 15%. He may have it reduced to a rate lower than 15% only if the reduced rate will be sufficient to provide an annuity which when added to the special pension will equal the normal pension furnished by the city.

CHAPTER 5

# THE RETIREMENT ALLOWANCE—SERVICE RETIREMENT

THUS FAR, we have explained how to calculate the separate parts of the retirement allowance when a teacher retires without an option. In this chapter we shall review the procedures already described through the solution of two typical problems.

*Example 1*: Consider the case of Miss G (page 29). The pertinent facts in her case are as follows:

She was appointed in 1930 with credit for two years of prior service. She expects to retire in September 1964 at age 56 on completion of 36 years of credited service. She received one salary differential in 1955 and the promotional differential on July 1, 1962. She served continuously since her appointment. She will have $31,000 in her annuity fund on date of retirement. She elected Clancy coverage in 1951. How large will her retirement allowance be if she retires on maximum, that is, without choosing an option?

Since Miss G was appointed before September 1943, her annuity will be obtained by using Table 1A on page 15. According to this table, a woman teacher retiring at age 56 will receive an annuity of $.0770 per year for each dollar in her annuity fund. There will be $31,000 in this fund upon retirement. Hence, Miss G's annuity will be $31,000 x .0770, or $2,387 per year for life.

Since this teacher has received one salary differential and the promotional differential, her average salary in September 1964 will be $9,292 according to Table 2, Column D on page 22. Miss G is under the Clancy law. Hence, for her 36 years of credited service she will receive a normal pension of 36% of $9,292, or $3,345 annually.

With the aid of Tables 3 and 1A, Miss G's special pension was found on page 29 to be $145. ($1,887 x .0770 = $145.)

The sum of the normal pension and the special pension is the pension part of the retirement allowance. Hence, the pension part of Miss G's maximum retirement allowance is the sum of $3,345 and $145, or $3,490 annually for life.

Her maximum retirement allowance is the sum of the maximum pension and the maximum annuity, $3,490 plus $2,387, or $5,877. She receives this annually for life.

*Example 2*: Mr. H was appointed as a high school teacher on September 7, 1944 with prior service credit for two years as a substitute teacher and seven years as an employee in the New York City Department of Hospitals. He served continuously since his appointment. He was born on May 8, 1908. He elected coverage under the Clancy law in 1951 and under the 55-30 law in 1960. He has been paying at a rate sufficient to guarantee him a pension of 1% for each year of service under both of these laws. It is estimated that he will have accumulated $28,000 in his annuity fund on September 1, 1965. He will become eligible for service retirement on September 7, 1965. If he should retire on that date, what will his maximum retirement allowance amount to?

First, let us make two observations from the given data:

(1) Under the Teachers' Retirement law, a teacher receives full credit for retirement purposes for all city service. Hence, Mr. H received full credit for his seven years in the Department of Hospitals. These seven years and his two years as a substitute give him a total prior service credit of nine years. He will thus be eligible to retire under the 55-30 law 21 years after appointment provided he will have reached age 55. He was appointed on September 7, 1944; hence he will complete 30 years of total service on September 6, 1965. Since he attained age 55 on May 8, 1963, he will thus be eligible to retire for service on September 7, 1965.

(2) Mr. H was appointed to the high schools prior to July 1, 1947. Hence, under the rules of the Board of Education, he is entitled to the maximum salary of a teacher who received two salary differentials and the promotional differential.

Now let us proceed to find the maximum annuity, normal pension and special pension in that order.

Mr. H was appointed between September 1943 and June 1947. Hence, Table 1B will be used to determine his annuity. His age on September 7, 1965 will be 57 to the nearest birthday. According to Table 1B a man, age 57, receives an annuity of $.0817 per year for each dollar in his annuity fund. With $28,000 in the annuity fund, Mr. H's annuity will be $28,000 x .0817, or $2,287 per year.

To determine Mr. H's normal pension, it is necessary to obtain his average salary. Table 2, Column E indicates that a teacher with two salary differentials plus a promotional differential will have an average salary of $10,127 on September 1, 1965. Hence, Mr. H's normal pension will be 30% of $10,127, or $3,038 annually.

To determine his special pension, it is necessary to obtain the special pension reserve in his case. Table 3, Column E indicates that the special reserve will amount to $2,602 on September 1, 1965. To determine the special pension from the special pension reserve we turn to Table 1B, the same table that was used to find H's annuity. With $2,602 in the special pension reserve, his special pension will be $2,602 x .0817, or $212 per year.

The pension part of the retirement allowance (sum of normal pension and special pension) is $3,038 plus $212, or $3,250 annually.

The maximum retirement allowance (sum of pension and annuity) is $3,250 plus $2,287, or $5,537 annually for life.

Thus, with the aid of Tables 1, 2 and 3, it is not difficult for a teacher to determine his own retirement allowance when he does not choose an option. The chapters immediately following deal with the calculation of the retirement allowance when an option has been chosen.

CHAPTER 6

# RETIREMENT OPTIONS

"WHAT OPTION shall I choose?" "Which is the best option for me?" "How much will it cost?" Questions like these naturally occur to a teacher contemplating retirement. We shall address ourselves to the problems implied in these and similar questions.

The options available to a teacher who retires are as follows:

OPTION I. This option guarantees that all the money paid by the teacher during all his teaching years (including interest) and all the money paid by the city for the future pension shall be paid to the teacher or to the beneficiaries.

*Example*: Teacher A retires under Option I. His own contributions and interest amount to $25,000; the city's payments for the future pension are $30,000. The total guaranteed reserve is $25,000 plus $30,000, or $55,000. A retires on $5,000 yearly. Suppose he dies four years after retirement. He has received $5,000 for each of 4 years or a total of $20,000. However, the original guarantee was for $55,000. Hence, the difference between $55,000 and $20,000, or $35,000 will be paid to the beneficiaries.

Of course, if Teacher A had lived long enough to receive the guaranteed amount of $55,000, the beneficiaries would get nothing. A, however, will continue to receive $5,000 per year as long as he lives.

OPTION II. Under this option, the teacher provides that, upon his death, the beneficiary, if he has survived, will receive the same monthly payment for life that the teacher had been receiving.

*Example*: Mr. B retires under Option II and receives $350 monthly for life. He had named his wife as beneficiary. When Mr. B dies, his wife, is she is alive, will continue to receive $350 monthly for the remainder of her life.

OPTION III. This option is similar to Option II, except that the beneficiary will receive each month only one-half of the monthly amount that the teacher had been receiving.

*Example*: Mrs. C chooses Option III and names her husband as beneficiary. Mrs. C receives $400 monthly for life. Upon her death, Mr. C, if alive, will receive one-half of $400, or $200 monthly as long as he lives.

OPTION IV-a. This option is similar to Option III, except that the beneficiary will receive only one-fourth or one-eighth of the monthly amount the teacher had been receiving.

OPTION IV-b. Under this option, the teacher provides that the beneficiaries shall, upon his death, receive a fixed lump sum.

*Example*: Teacher D retired and stipulated that, upon his death, $12,000 shall be paid to his daughters. D died after 15 years. Each of his two daughters received $6,000.

OPTION IV-c. This option is best explained by an illustration. Teacher T retires under Option IV-c. His pension is $2,500 and his annuity $2,000. His ANNUITY reserve (his own contributions with interest) is $28,000. T dies three years after retirement.

Under Option IV-c, we subtract, from the annuity reserve of $28,000 *twice* the annual annuity for each year of retirement. Here the annuity was $2,000 yearly. Twice $2,000 is $4,000. For 3 years at $4,000, we have $12,000. This amount, $12,000, is subtracted from $28,000. Hence, the beneficiaries receive $16,000.

Note: Options I, II, III and IV-a may be chosen on the *pension* part only or on the *annuity* part only or on *both* parts. Options IV-b and IV-c may be chosen only on the ANNUITY part.

## SELECTING AN OPTION

The choice of an option depends on many facts. The most significant of these are the health of the teacher and the general span of life in his family. Other elements that should be considered are: outside income of the teacher, his real and personal property, social security, insurance on his life, income taxes on his retirement allowance, future needs of the teacher, the terms of a will written by the teacher, his obligations to members of his family, and the health, history of longevity and financial condition of his beneficiaries.

Based upon available information, an option which appears at the time of filing to be suitable for the particular teacher may be chosen by him. But there is no assurance that the option selected will actually prove to be the most advantageous, either to the teacher or to his beneficiaries. This is due to the uncertainties of life.

A teacher's final choice of an option must be made prior to the date he retires from service; thereafter, the option cannot be changed. In Options I and IV-b and IV-c, the beneficiary may be changed by the teacher even after retirement. In Options II, III and IV-a, the beneficiary may *not* be changed *after* retirement.

## OPTION FACTOR

When a teacher retires under an option he makes provision for beneficiaries. His own original (maximum) retirement allowance will be *reduced* in order to pay for the benefits provided by the option. Hence, the price that the teacher must pay for the option in the form of a reduction in his retirement allowance is an important consideration in choosing an option.

*If a teacher does not select an option, he is said to retire on a* MAXIMUM *retirement allowance; in this case, upon his death all payments cease—not even his own contributions can be refunded to his estate.**

Whether a teacher selects an option or not, the actuary first calculates the maximum pension and the maximum annuity.

If an option is chosen, the maximum allowance is multiplied by a decimal called the *Option Factor* in order to obtain the teacher's reduced allowance. This factor depends on the particular option selected and on the age and sex of the teacher; in Options II, III and IV-a, the factor also depends on the age and sex of the beneficiary. The option factor for a teacher appointed on or after July 1, 1947 is less favorable than the corresponding option factor for one appointed before that date.

* However, when a teacher retires on *maximum* allowance and dies within 30 days after the date of his retirement, the beneficiaries or estate will receive the accumulated contributions of the teacher and a death benefit from city. This is also true for a teacher who applies for disability retirement and dies within the 30 days following the date of filing the application for retirement.

CHAPTER 7

# OPTION I—SERVICE RETIREMENT BENEFIT PAID AS A LUMP SUM

OPTION I on the full retirement allowance guarantees to the beneficiaries (or estate) the amount in the *annuity reserve* and the amount in the *pension reserve,* less the sum of monthly payments made to the teacher from the date of retirement to the date of his death.

The *annuity reserve* consists of the teacher's own contributions with interest. The *pension reserve* is the sum set aside by the city to meet future pension payments* of the retired teacher for life. The annuity reserve and the pension reserve comprise the *total reserve.* This is the *initial insurance* under Option I. The initial insurance is reduced each month by an amount equal to the monthly payment to the retired teacher, and upon his death the amount remaining in the reserve, if any, is payable to the beneficiaries.

After the reserve has been exhausted, the teacher continues to receive his monthly payments for the rest of his life. However, upon his death, no payments will be made to his beneficiary.

## OPTION I ON THE ANNUITY

If a teacher selects *Option I on the annuity only,* he takes his maximum pension and a reduced annuity. This option is obviously less expensive than Option I on both pension and annuity. In the case of Option I on the annuity, the beneficiary is guaranteed the amount in the teacher's *annuity reserve only, less the sum of annuity payments* made to the retired teacher.

This option is often chosen by a teacher who wishes to make

* Pension payments to a retired teacher include *both* the normal pension and the special pension that results from the city's additional 5% contributions.

*certain* that the amounts that he, himself, has contributed through the years, with interest, will be paid after his retirement either to himself in the form of an annuity, or upon his death, to a member of his family (or to his estate).

### OPTION I ON THE PENSION

If a teacher selects *Option I on the pension only,* he takes a reduced pension and his maximum annuity. In that case, the beneficiary is guaranteed the amount in the *pension reserve only, less the sum of pension payments* made to the retired teacher.

This option is rarely chosen. If a teacher wishes to retire under Option I on one part of his retirement allowance, it is generally recommended that he choose Option I on the annuity, rather than on the pension. Because of the method used by the Retirement Board to calculate the pension reserve under Option I, it is generally more favorable to the beneficiary if a teacher chooses Option I on the annuity only rather than Option I on the pension only.

### REDUCED ALLOWANCE UNDER OPTION I

Table 4 (page 40) will enable a teacher to figure his reduced pension or annuity or both if he retires for service under Option I.

The teacher must first calculate his maximum pension and maximum annuity. He then multiplies the maximum pension or maximum annuity or maximum retirement allowance by the appropriate Option I factor given in Table 4. The result is a reduced pension or reduced annuity or reduced retirement allowance under Option I.

*Example 1*: Mrs. J, age 55, is entitled to a retirement allowance of $5,000 per year if she retires on maximum. She was appointed in 1930. What will she receive under Option I?

Table 4 shows that the Option I factor for a woman of 55, who was appointed before July 1, 1947, is .8798. Mrs. J's maximum allowance of $5,000 must be multiplied by .8798. The product is $4,399. Hence, Mrs. J will receive $4,399 yearly for life under Option I.

*Example 2*: Mr. K, appointed in 1948, expects to retire at age 65. Assuming that his maximum retirement allowance will be $7,500, what will he receive if he chooses Option I?

Table 4 gives .7220 as the Option I factor for a man of 65 who was appointed after June 30, 1947. It was assumed that Mr. K's maximum retirement allowance will be $7,500 yearly. Therefore, his reduced retirement allowance under Option I will be $7,500 x .7220, or $5,415 annually for life.

## THE RESERVES

The pension reserve and the annuity reserve constitute the *Total Reserve.* This is the *Initial Insurance* under Option I.* The teacher considering retirement under this option is interested in knowing the amount of this initial insurance, and how long it will take for the insurance to be exhausted because of payments made to him after he retires.

The pension reserve is the sum set aside by the city to meet future pension payments of the retired teacher for life. These pension payments, we learned, are composed of two separate parts, the normal pension and the special pension. The normal pension reserve is obtained by multiplying the teacher's maximum normal pension by the appropriate multiplier given in Table 5 (page 41).

The special pension reserve consists of the additional contributions, with interest, made by the city for the teacher since July 1, 1960. The special pension reserve for all classroom teachers who will retire before 1971 can be obtained directly from Table 3 or can be estimated from the figures given in that table. Individual calculations of the special pension reserve will have to be made for contributors other than classroom teachers. The pension reserve, which consists of the sum of the normal pension reserve and the special pension reserve, is the initial insurance if the teacher chooses Option I on the pension only.

The annuity reserve, which consists of the sums contributed by the teacher with interest, constitutes the initial insurance if the teacher chooses Option I on the annuity only.

As has already been stated, the sum of the pension reserve and the annuity reserve is the initial insurance if the teacher chooses Option I on both parts of the retirement allowance.

*Example 1*: Mrs. L was appointed in 1933. She retired in September 1963 when she was 60 years old. Let us make the following assumptions in her case: The annuity reserve (her contributions with interest) was $30,000; the special pension reserve, $1,318; her maximum annuity, $2,562; her maximum normal pension, $2,826; her maximum special pension, $112; and her maximum retirement allowance, $5,500. If she retired under Option I, (a)

* When we speak of Option I, we mean Option I on both pension and annuity.

what does she receive per year, (b) what was the amount of the initial insurance, and (c) how much will the beneficiary receive if Mrs. L lives just 5 years after retirement?

(a). To obtain the reduced retirement allowance under Option I, turn to Table 4. In the column for teachers appointed before July 1947 the Option I factor for a woman of 60 is given as .8535. Multiply the maximum retirement allowance, $5,500, by .8535. The product is $4,694. Hence, Mrs. L's reduced retirement allowance under Option I is $4,694 per year for life.

(b) The initial insurance is the sum of the pension reserve and the annuity reserve. It was assumed that the annuity reserve was $30,000. Hence, we need only find the pension reserve.

The pension reserve is the sum of the normal pension reserve and the special pension reserve. The normal pension reserve under

TABLE 4

## OPTION I FACTOR

### Service Retirement

| Age at Retirement | Teacher Appt'd Before July 47 | | Teacher Appt'd After June 47 | | Age at Retirement |
|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | |
| 50 | .8129 | .8994 | .7832 | .8783 | 50 |
| 51 | .8107 | .8960 | .7810 | .8744 | 51 |
| 52 | .8083 | .8923 | .7783 | .8704 | 52 |
| 53 | .8056 | .8883 | .7754 | .8658 | 53 |
| 54 | .8026 | .8842 | .7725 | .8611 | 54 |
| 55 | .7995 | .8798 | .7693 | .8564 | 55 |
| 56 | .7962 | .8751 | .7658 | .8510 | 56 |
| 57 | .7929 | .8701 | .7619 | .8455 | 57 |
| 58 | .7888 | .8648 | .7580 | .83[illegible] | 58 |
| 59 | .7846 | .8594 | .7539 | .8338 | 59 |
| 60 | .7803 | .8535 | .7492 | .8273 | 60 |
| 61 | .7757 | .8473 | .7442 | .8209 | 61 |
| 62 | .7708 | .8409 | .7392 | .8138 | 62 |
| 63 | .7654 | .8344 | .7341 | .8065 | 63 |
| 64 | .7598 | .8271 | .7281 | .7991 | 64 |
| 65 | .7542 | .8196 | .7220 | .7913 | 65 |
| 66 | .7482 | .8121 | .7160 | .7830 | 66 |
| 67 | .7414 | .8042 | .7093 | .7747 | 67 |
| 68 | .7345 | .7956 | .7022 | .7660 | 68 |
| 69 | .7276 | .7871 | .6951 | .7569 | 69 |
| 70 | .7207 | .7786 | .6881 | .7478 | 70 |
| 71 | .7125 | .7691 | .6798 | .7383 | 71 |

Option I is found by multiplying the maximum normal pension, $2,826, by the multiplier given in Table 5 for a woman of 60 who was appointed before July 1947, namely, 11.392. The product of $2,826 and 11.392 is $32,194. This is the normal pension reserve under Option I. The special pension reserve is given as $1,318. The total pension reserve is the sum of $32,194 and $1,318, or $33,512.

To the pension reserve, $33,512, we now add the annuity reserve, $30,000. The sum, $63,512, was the *total reserve*, or the *initial insurance* under Option I.

(c) After her retirement, Mrs. L receives $4,694 per year for life. If she lives five years, she will have received $23,470. Option I guarantees to the beneficiary, the amount of the total reserve,

TABLE 5

MULTIPLIER FOR FINDING NORMAL PENSION RESERVE UNDER OPTION I

Service Retirement

| Age at Retirement | Teacher Appt'd Before July 47 | | Teacher Appt'd After June 47 | | Age at Retirement |
|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | |
| 50 | 10.996 | 14.074 | 12.052 | 15.697 | 50 |
| 51 | 10.862 | 13.837 | 11.885 | 15.397 | 51 |
| 52 | 10.720 | 13.594 | 11.709 | 15.091 | 52 |
| 53 | 10.568 | 13.345 | 11.523 | 14.780 | 53 |
| 54 | 10.406 | 13.089 | 11.325 | 14.462 | 54 |
| 55 | 10.234 | 12.826 | 11.117 | 14.137 | 55 |
| 56 | 10.053 | 12.556 | 10.900 | 13.805 | 56 |
| 57 | 9.861 | 12.277 | 10.671 | 13.466 | 57 |
| 58 | 9.660 | 11.990 | 10.433 | 13.119 | 58 |
| 59 | 9.450 | 11.695 | 10.186 | 12.764 | 59 |
| 60 | 9.233 | 11.392 | 9.931 | 12.402 | 60 |
| 61 | 9.008 | 11.080 | 9.670 | 12.032 | 61 |
| 62 | 8.774 | 10.761 | 9.400 | 11.656 | 62 |
| 63 | 8.536 | 10.434 | 9.125 | 11.274 | 63 |
| 64 | 8.291 | 10.101 | 8.846 | 10.887 | 64 |
| 65 | 8.044 | 9.763 | 8.564 | 10.497 | 65 |
| 66 | 7.792 | 9.422 | 8.278 | 10.104 | 66 |
| 67 | 7.539 | 9.077 | 7.992 | 9.711 | 67 |
| 68 | 7.282 | 8.732 | 7.704 | 9.318 | 68 |
| 69 | 7.024 | 8.386 | 7.415 | 8.928 | 69 |
| 70 | 6.764 | 8.043 | 7.126 | 8.542 | 70 |
| 71 | 6.504 | 7.702 | 6.837 | 8.161 | 71 |
| 72 | 6.241 | 7.365 | 6.547 | 7.786 | 72 |

$63,512, less the sum of payments to Mrs. L, $23,470. The beneficiary will be entitled to the difference between $63,512 and $23,470, or $40,042.

To find how long the total reserve (insurance) will last, we divide $63,512 by $4,694. The quotient is 13.5. This means that the insurance will be exhausted in 13½ years. No benefits can be paid to the beneficiary if Mrs. L lives more than 13½ years after retirement. Mrs. L, however, will receive $4,694 each year *as long as she lives.*

*Example 2:* Let us assume that Mrs. L retired under Option I on the annuity and maximum allowance on the pension. (a) What is her annual retirement allowance? (b) What was the amount of the initial insurance? (c) How much will the beneficiary receive if Mrs. L lives ten years after her retirement?

(a) Since Option I was taken on the annuity only, the Option I factor, .8535, found in Table 4, applies now to the maximum annuity instead of to the maximum retirement allowance. Hence, we multiply the maximum annuity, $2,562, by .8535. The product is $2,187. This is Mrs. L's reduced annuity under Option I.

Mrs. L's maximum pension was not affected by this choice of option. Hence, her pension is simply the sum of her maximum normal pension, $2,826, and her maximum special pension, $112. The sum of $2,826 and $112 is $2,938; this is the pension part of her retirement allowance. Her total retirement allowance under the option is the sum of the maximum pension and the reduced annuity, that is, $2,938 plus $2,187, or $5,125 yearly for life.

(b) The annuity reserve (Mrs. L's accumulated contributions) was given as $30,000. This was the initial insurance, since Mrs. L chose Option I on the annuity only.

(c) The initial insurance (annuity reserve) was $30,000. Each year the *annuity* part of Mrs. L's retirement allowance is $2,187. If she lives only ten years, she will have received from the annuity reserve ten times $2,187, or a total of $21,870. The beneficiary will then receive $8,130—the difference between $30,000 and $21,870.

How long will it be before the annuity reserve is exhausted? We divide the original annuity reserve of $30,000 by the annual annuity of $2,187. The result is 13.7. This means that the annuity reserve will last 13.7 years. After 13.7 years from the date of Mrs. L's retirement, no benefits can be paid to the beneficiaries. However, Mrs. L will continue to receive her original, reduced retirement allowance of $5,125, even if she lives to age 120.

THIS IS MOST IMPORTANT FOR TEACHERS IN ACTIVE SERVICE: *To protect his dependents in the event that an emergency retirement becomes necessary on account of serious illness or accident, every teacher who has dependents should have Option I on file at the Retirement Office. Before retirement, the teacher may change Option I to any other option or to maximum retirement allowance.*

If the teacher at any time wishes to change the designation of a beneficiary to receive the benefits under Option I, he should file a new Option I form without delay. This may be done before or after retirement.

CHAPTER 8

# OPTION I—SERVICE RETIREMENT BENEFIT PAID AS AN ANNUITY

AN AMENDMENT to the Retirement law enacted in 1962 gives a teacher who retires under Option I and his designated beneficiary an important right previously not available to them.

It will be recalled that Option I guarantees to the beneficiary the amount in the annuity reserve, the pension reserve, or total reserve, LESS the sum of monthly payments to the retired teacher.

Formerly, the balance in the reserve under Option I could be paid to the beneficiary only in the form of a lump sum. Under the 1962 amendment, the teacher may elect to have the balance paid to the beneficiary either as a lump sum or in the form of monthly annuity payments for life. The teacher may make this election at any time before or after retirement.

If the teacher has named a beneficiary to receive the benefits under Option I, but has not elected to have the balance in the reserve paid to his beneficiary in the form of an annuity, the beneficiary, upon the death of the retired teacher, may elect to receive the money as an annuity for life.

On the other hand, if the retired teacher has elected to have the benefits under Option I paid to his beneficiary as an annuity, the beneficiary *may not* receive these benefits as a lump sum. There is one exception to the right of selecting an annuity: If the balance in the reserve at the time of death of the teacher is less than $10,000, payment to the beneficiary will be made *only* in the form of a lump sum.

If two or more beneficiaries are named to receive the benefit under Option I as an annuity, the balance in the reserve available for each must be at least $10,000; otherwise, each beneficiary will receive a lump sum.

## SOME ADVANTAGES

This new right to have the balance of the reserve under Option I paid in the form of an annuity is especially important in the case of a beneficiary who is incapable of handling large sums of money judiciously, or in the case of a beneficiary who might be exploited by unscrupulous persons.

This right now becomes even more important in the case of a teacher who dies in service under the provisions of the "Death Gamble" law. (See Chapter 19.) In this case, the total reserve payable to the beneficiary is usually more than $50,000.

It should be kept in mind that, where an annuity is chosen for a beneficiary, should the beneficiary die after the death of the teacher, no further payments can be made to anybody.

## CALCULATION OF ANNUITY TO BENEFICIARY

The new Option I law prescribes that the table to be used to calculate the annuity to the beneficiary under this option shall be the same as that used to calculate the annuity payable to the beneficiary under Option A. (Option A provides that, in the event of a teacher's death before he becomes eligible for service retirement, his accumulated contributions, or death benefit, or both, shall be paid in the form of an annuity to a designated beneficiary for life.) The table used to determine the annuity to the beneficiary under Option A is Table 24 in Chapter 18. Table 6, given below to facilitate the calculation of the annuity to the beneficiary under Option I, is identical with Table 24.

The annuity to the beneficiary will depend upon the sex and age of the beneficiary at the time of death of the retired teacher. It will also depend on the amount remaining in the teacher's reserve at that time. The figures are less favorable for beneficiaries of three percent contributors (those appointed after June 1947) than for beneficiaries of four percent contributors (those appointed before July 1947).

Table 6 will enable one to determine the beneficiary's yearly annuity for life, beginning on the date of death of the teacher. The balance in the reserve available to the beneficiary is multiplied by the appropriate Option A factor given in the table. The result is the annuity payable to the beneficiary.

*Example 1:* Mr. M was appointed in 1920. He retired in 1963. He selected Option I, naming his wife, age 58, to receive the benefit under the option in the form of an annuity. His total reserve (annuity reserve plus pension reserve) on date of retirement

TABLE 6

# OPTION A FACTOR
## ANNUITY PER DOLLAR PAYABLE TO BENEFICIARY UNDER OPTION A, OPTION I AND OPTION IV-b

| Age of Beneficiary | Teacher Appt'd Before July 1947 Beneficiary | | Teacher Appt'd After June 1947 Beneficiary | | Age of Beneficiary |
|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | |
| 20 | .0492 | .0481 | .0414 | .0402 | 20 |
| 25 | .0509 | .0495 | .0433 | .0418 | 25 |
| 30 | .0531 | .0513 | .0456 | .0437 | 30 |
| 35 | .0559 | .0536 | .0486 | .0461 | 35 |
| 40 | .0596 | .0566 | .0523 | .0492 | 40 |
| 42 | .0614 | .0580 | .0541 | .0507 | 42 |
| 44 | .0634 | .0596 | .0562 | .0523 | 44 |
| 46 | .0656 | .0614 | .0584 | .0541 | 46 |
| 48 | .0681 | .0634 | .0609 | .0562 | 48 |
| 50 | .0709 | .0656 | .0637 | .0584 | 50 |
| 51 | .0724 | .0668 | .0653 | .0596 | 51 |
| 52 | .0741 | .0681 | .0669 | .0609 | 52 |
| 53 | .0758 | .0695 | .0686 | .0623 | 53 |
| 54 | .0776 | .0709 | .0705 | .0637 | 54 |
| 55 | .0796 | .0724 | .0724 | .0653 | 55 |
| 56 | .0817 | .0741 | .0745 | .0669 | 56 |
| 57 | .0839 | .0758 | .0767 | .0686 | 57 |
| 58 | .0862 | .0776 | .0791 | .0705 | 58 |
| 59 | .0887 | .0796 | .0816 | .0724 | 59 |
| 60 | .0914 | .0817 | .0843 | .0745 | 60 |
| 61 | .0943 | .0839 | .0871 | .0767 | 61 |
| 62 | .0974 | .0862 | .0902 | .0791 | 62 |
| 63 | .1007 | .0887 | .0934 | .0816 | 63 |
| 64 | .1042 | .0914 | .0969 | .0843 | 64 |
| 65 | .1079 | .0943 | .1007 | .0871 | 65 |
| 66 | .1120 | .0974 | .1047 | .0902 | 66 |
| 67 | .1163 | .1007 | .1090 | .0934 | 67 |
| 68 | .1209 | .1042 | .1136 | .0969 | 68 |
| 69 | .1259 | .1079 | .1186 | .1007 | 69 |
| 70 | .1313 | .1120 | .1239 | .1047 | 70 |
| 71 | .1370 | .1163 | .1297 | .1090 | 71 |
| 72 | .1432 | .1209 | .1359 | .1136 | 72 |
| 73 | .1499 | .1259 | .1425 | .1186 | 73 |
| 74 | .1572 | .1313 | .1497 | .1239 | 74 |
| 75 | .1650 | .1370 | .1575 | .1297 | 75 |
| 76 | .1734 | .1432 | .1659 | .1359 | 76 |
| 77 | .1825 | .1499 | .1749 | .1425 | 77 |
| 78 | .1923 | .1572 | .1847 | .1497 | 78 |
| 79 | .2030 | .1650 | .1954 | .1575 | 79 |
| 80 | .2145 | .1734 | .2068 | .1659 | 80 |
| 81 | .2270 | .1825 | .2193 | .1749 | 81 |

amounted to $60,000. His retirement allowance under Option I was $4,800 per year. He died 5 years after his retirement. What was the amount of Mrs. M's annuity?

Mr. M received 5 x $4,800 or $24,000 during the five years he lived after retirement. Hence, the balance in the total reserve at the time of his death amounted to $60,000 less $24,000, or $36,000.

When Mr. M. died, his wife was 63 years old. Table 6 shows that, if a woman age 63 is the beneficiary under Option I, she will receive an annuity of $.0887 for each dollar in the balance of the reserve payable to her. Hence, Mrs. M's annuity for life was $36,000 x .0887, or $3,193.

If Mr. M had not elected to have the benefit under Option I paid to his wife in the form of an annuity, his wife, after Mr. M's death, could have elected to take the same annuity of $3,193 instead of a lump sum of $36,000.

*Example 2*: —Miss N retired under Option I on the annuity only. Her annuity reserve (accumulated contributions) was $23,000. The annuity part of the retirement allowance that she received after her retirement was $1,800 per year. She named her sister to receive the benefit under Option I in the form of an annuity. Miss N lived 10 years after her retirement. What did the sister receive?

Miss N received annuity payments in the total amount of $18,000 during her 10 years of retirement. The balance of the annuity reserve at the time of her death was $23,000 less $18,000, or $5,000. Since this sum is less than $10,000, the benefit under Option I will be paid to the sister in form of a lump sum only.

The teacher should keep in mind that he may change the designation of his beneficiary under Option I, whether the beneficiary is to receive a lump sum or an annuity, at any time *before or after retirement.*

If a named beneficiary dies, and the teacher thereafter fails to designate another beneficiary under Option I, the balance in the reserves will be paid in a lump sum to the teacher's estate.

CHAPTER 9

# OPTION II—SERVICE RETIREMENT

WHEN A TEACHER chooses Option II or Option III, he wants his surviving beneficiary to receive a fixed monthly amount for the remainder of the beneficiary's life.

These options may be chosen for the entire retirement allowance; they may also be chosen for only one part—for the *pension* or for the *annuity*.

If Option II is chosen on the entire retirement allowance, then the beneficiary, if he survives the teacher, continues to receive the same monthly amount that the teacher had been receiving. Under Option III, the beneficiary would receive monthly only half the monthly amount that the teacher had been receiving.

*Example of Option II*: Miss A retires at age 64. She is informed that her maximum allowance will be $400 monthly for life. She chooses Option II for her sister, age 62. Miss A's reduced allowance will now be $303 monthly for life. When she dies, her sister, if she is alive, will continue to receive $303 monthly for the remainder of her life.

## IMPORTANT NOTE

Under Option II or III the beneficiary may *not* be changed *after* the date of retirement. Should the beneficiary predecease the retired teacher, there will be no change in the teacher's retirement allowance and all retirement payments will cease with the teacher's death.

## REDUCED ALLOWANCE UNDER OPTION II

Teachers who were appointed before July 1947 can determine their reduced allowances under Option II by using Table 7 or 8 or 9 or 10. Table 11 gives some Option II factors for teachers appointed after June 1947. A comparison of the Option II factors in Table 11 with the corresponding Option II factors in Tables 7, 8, 9 and 10 shows that the Option II factors, in the case of service retirement, are ALWAYS lower for three percent contributors (those appointed after June 1947) than for four percent contributors (those appointed before July 1947).

The teacher must first determine his maximum pension and his maximum annuity. He then looks for the appropriate factor in one of the tables. Finally, he multiplies the maximum figure by the appropriate Option II factor.

TABLE 7

## OPTION II FACTOR
## MALE TEACHER WITH FEMALE BENEFICIARY
### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .8422 | .8590 | .8742 | .8875 | +15 |
| +10 | .7911 | .8036 | .8148 | .8251 | +10 |
| + 9 | .7808 | .7919 | .8019 | .8109 | + 9 |
| + 8 | .7704 | .7801 | .7889 | .7966 | + 8 |
| + 7 | .7599 | .7683 | .7757 | .7819 | + 7 |
| + 6 | .7495 | .7565 | .7622 | .7669 | + 6 |
| + 5 | .7392 | .7447 | .7490 | .7518 | + 5 |
| + 4 | .7290 | .7329 | .7354 | .7365 | + 4 |
| + 3 | .7190 | .7213 | .7220 | .7213 | + 3 |
| + 2 | .7091 | .7097 | .7086 | .7060 | + 2 |
| + 1 | .6993 | .6983 | .6954 | .6908 | + 1 |
| 0 | .6897 | .6871 | .6825 | .6758 | 0 |
| — 1 | .6804 | .6761 | .6695 | .6610 | — 1 |
| — 2 | .6713 | .6654 | .6570 | .6464 | — 2 |
| — 3 | .6623 | .6548 | .6447 | .6320 | — 3 |
| — 4 | .6536 | .6446 | .6326 | .6180 | — 4 |
| — 5 | .6451 | .6345 | .6208 | .6043 | — 5 |
| — 6 | .6369 | .6248 | .6094 | .5910 | — 6 |
| — 7 | .6290 | .6154 | .5983 | .5782 | — 7 |
| — 8 | .6211 | .6062 | .5875 | .5656 | — 8 |
| — 9 | .6137 | .5973 | .5772 | .5535 | — 9 |
| —10 | .6064 | .5888 | .5671 | .5418 | —10 |
| —11 | .5994 | .5805 | .5574 | .5306 | —11 |
| —12 | .5927 | .5725 | .5481 | .5198 | —12 |
| —13 | .5862 | .5649 | .5391 | .5094 | —13 |
| —14 | .5799 | .5575 | .5304 | .4995 | —14 |
| —15 | .5739 | .5503 | .5222 | .4899 | —15 |
| —20 | .5470 | .5188 | .4856 | .4480 | —20 |
| —25 | .5252 | .4933 | .4562 | .4148 | —25 |
| —30 | .5075 | .4728 | .4328 | .3886 | —30 |
| —35 | .4933 | .4564 | .4143 | .3681 | —35 |

*Example*: A man* retires at 65, naming his wife, age 62, as beneficiary under Option II. If his maximum retirement allowance is $7,000, what will he receive under Option II?

In Table 7, the Option II factor for a male teacher of 65 with a female beneficiary 3 years younger is .6447. Hence, the teacher will receive $7,000 x .6447, or $4,512 a year as long as he lives. Upon his death, his wife, if she survives him, will continue to receive $4,512 per year for life.

* Unless otherwise indicated, all illustrations in this chapter and in succeeding chapters refer to four percent contributors; that is, to those appointed before July 1, 1947.

TABLE 8

## OPTION II FACTOR
## FEMALE TEACHER WITH MALE BENEFICIARY
### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .9402 | .9438 | .9475 | .9513 | +15 |
| +14 | .9350 | .9382 | .9415 | .9452 | +14 |
| +13 | .9296 | .9325 | .9353 | .9387 | +13 |
| +12 | .9240 | .9263 | .9287 | .9316 | +12 |
| +11 | .9182 | .9198 | .9217 | .9240 | +11 |
| +10 | .9121 | .9130 | .9141 | .9159 | +10 |
| + 9 | .9058 | .9058 | .9061 | .9071 | + 9 |
| + 8 | .8992 | .8983 | .8978 | .8978 | + 8 |
| + 7 | .8925 | .8905 | .8890 | .8880 | + 7 |
| + 6 | .8856 | .8826 | .8798 | .8779 | + 6 |
| + 5 | .8786 | .8745 | .8705 | .8671 | + 5 |
| + 4 | .8714 | .8660 | .8607 | .8560 | + 4 |
| + 3 | .8642 | .8574 | .8507 | .8445 | + 3 |
| + 2 | .8568 | .8487 | .8404 | .8325 | + 2 |
| + 1 | .8493 | .8398 | .8300 | .8203 | + 1 |
| 0 | .8418 | .8308 | .8193 | .8078 | 0 |
| — 1 | .8341 | .8217 | .8085 | .7951 | — 1 |
| — 2 | .8266 | .8127 | .7976 | .7823 | — 2 |
| — 3 | .8190 | .8035 | .7867 | .7693 | — 3 |
| — 4 | .8115 | .7944 | .7758 | .7564 | — 4 |
| — 5 | .8039 | .7852 | .7648 | .7434 | — 5 |
| — 6 | .7965 | .7762 | .7540 | .7305 | — 6 |
| — 7 | .7890 | .7672 | .7432 | .7177 | — 7 |
| — 8 | .7817 | .7584 | .7325 | .7050 | — 8 |
| — 9 | .7745 | .7496 | .7220 | .6925 | — 9 |
| —10 | .7674 | .7410 | .7117 | .6802 | —10 |
| —15 | .7340 | .7006 | .6633 | .6227 | —15 |
| —20 | .7047 | .6653 | .6213 | .5735 | —20 |
| —25 | .6798 | .6362 | .5861 | .5327 | —25 |
| —30 | .6590 | .6109 | .5574 | .4998 | —30 |
| —35 | .6421 | .5909 | .5342 | .4736 | —35 |

*Example*: A woman of 60 retires, naming her brother, age 56, as beneficiary under Option II. If her maximum retirement allowance is $6,000, what will her retirement allowance be under Option II?

In Table 8, the Option II factor for a female teacher of 60 with a male beneficiary 4 years younger is .7944. The teacher will receive $6,000 x .7944, or $4,766 per year for life. When she dies, her brother, if he survives, will continue to receive $4,766 as long as he lives.

TABLE 9

## OPTION II FACTOR
## FEMALE TEACHER WITH FEMALE BENEFICIARY
### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .9209 | .9237 | .9267 | .9302 | +15 |
| +14 | .9148 | .9169 | .9194 | .9224 | +14 |
| +13 | .9083 | .9097 | .9116 | .9139 | +13 |
| +12 | .9016 | .9023 | .9034 | .9050 | +12 |
| +11 | .8946 | .8945 | .8946 | .8954 | +11 |
| +10 | .8875 | .8864 | .8855 | .8854 | +10 |
| + 9 | .8802 | .8780 | .8760 | .8747 | + 9 |
| + 8 | .8727 | .8693 | .8661 | .8636 | + 8 |
| + 7 | .8651 | .8605 | .8559 | .8520 | + 7 |
| + 6 | .8573 | .8514 | .8454 | .8401 | + 6 |
| + 5 | .8493 | .8421 | .8347 | .8277 | + 5 |
| + 4 | .8413 | .8327 | .8237 | .8149 | + 4 |
| + 3 | .8333 | .8232 | .8126 | .8020 | + 3 |
| + 2 | .8251 | .8136 | .8012 | .7888 | + 2 |
| + 1 | .8170 | .8039 | .7899 | .7755 | + 1 |
| 0 | .8089 | .7942 | .7784 | .7621 | 0 |
| — 1 | .8008 | .7845 | .7669 | .7486 | — 1 |
| — 2 | .7926 | .7748 | .7554 | .7350 | — 2 |
| — 3 | .7845 | .7652 | .7441 | .7217 | — 3 |
| — 4 | .7766 | .7557 | .7327 | .7083 | — 4 |
| — 5 | .7687 | .7462 | .7215 | .6951 | — 5 |
| — 6 | .7610 | .7369 | .7104 | .6821 | — 6 |
| — 7 | .7533 | .7278 | .6996 | .6693 | — 7 |
| — 8 | .7457 | .7188 | .6888 | .6568 | — 8 |
| — 9 | .7384 | .7099 | .6784 | .6445 | — 9 |
| —10 | .7311 | .7013 | .6681 | .6324 | —10 |
| —15 | .6975 | .6613 | .6211 | .5777 | —15 |
| —20 | .6685 | .6271 | .5812 | .5318 | —20 |
| —25 | .6441 | .5985 | .5482 | .4944 | —25 |
| —30 | .6238 | .5750 | .5214 | .4644 | —30 |
| —35 | .6072 | .5560 | .5004 | .4405 | —35 |

*Example*: A woman of 60 retires, naming her sister, age 65, as beneficiary under Option II. If this teacher's maximum retirement allowance is $5,000, what will she receive under Option II?

In Table 9, the Option II factor for a female teacher of 60 with a female beneficiary 5 years older is .8421. The teacher will receive $5,000 x .8421, or $4,210 a year for life. Upon her death, her sister, if she survives, will continue to receive $4,210 annually as long as she lives.

## TABLE 10

# OPTION II FACTOR
# MALE TEACHER WITH MALE BENEFICIARY
### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

**Note:** 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +10 | .8285 | .8424 | .8554 | .8670 | +10 |
| + 9 | .8187 | .8318 | .8438 | .8548 | + 9 |
| + 8 | .8089 | .8209 | .8320 | .8421 | + 8 |
| + 7 | .7989 | .8098 | .8198 | .8288 | + 7 |
| + 6 | .7889 | .7987 | .8074 | .8153 | + 6 |
| + 5 | .7791 | .7874 | .7948 | .8013 | + 5 |
| + 4 | .7692 | .7761 | .7820 | .7870 | + 4 |
| + 3 | .7593 | .7648 | .7691 | .7726 | + 3 |
| + 2 | .7495 | .7535 | .7561 | .7579 | + 2 |
| + 1 | .7398 | .7423 | .7432 | .7431 | + 1 |
| 0 | .7303 | .7311 | .7304 | .7283 | 0 |
| — 1 | .7210 | .7201 | .7175 | .7134 | — 1 |
| — 2 | .7118 | .7092 | .7048 | .6987 | — 2 |
| — 3 | .7027 | .6985 | .6923 | .6841 | — 3 |
| — 4 | .6938 | .6880 | .6799 | .6697 | — 4 |
| — 5 | .6851 | .6778 | .6677 | .6556 | — 5 |
| — 6 | .6767 | .6677 | .6561 | .6417 | — 6 |
| — 7 | .6685 | .6579 | .6444 | .6281 | — 7 |
| — 8 | .6604 | .6483 | .6330 | .6149 | — 8 |
| — 9 | .6526 | .6390 | .6221 | .6020 | — 9 |
| —10 | .6451 | .6300 | .6114 | .5894 | —10 |
| —15 | .6110 | .5892 | .5631 | .5329 | —15 |
| —20 | .5828 | .5554 | .5232 | .4866 | —20 |
| —25 | .5595 | .5279 | .4910 | .4495 | —25 |
| —30 | .5407 | .5058 | .4653 | .4202 | —30 |
| —35 | .5258 | .4882 | .4450 | .3973 | —35 |

*Example*: A man retires at age 55, naming his brother, age 60, as beneficiary under Option II. If the teacher's maximum retirement allowance is $6,500, what will he receive under Option II?

In Table 10, the Option II factor for a male teacher of 55 with a male beneficiary 5 years older is .7791. Therefore, the teacher will receive $6,500 x .7791, or $5,064 a year for life. Upon his death, his brother, if he survives, will continue to receive $5,064 a year as long as he lives.

## ANOTHER COMMENT ON OPTION II

The patient reader has noticed that many combinations of teacher and beneficiary are missing from the tables. It is indeed impossible to give all combinations. A fairly approximate calculation can be made for most situations. Two examples will be given:

*Illustration 1*: Mr. M retires at age 64; he names his wife, age 59, as beneficiary under Option II. Mr. M's maximum allowance is $7,000 yearly. What will he receive under Option II?

We turn to Table 7, which gives Option II factors for a male teacher with a female beneficiary. No column is given for a teacher, age 64. We therefore look to the nearest column, age 65—only one year removed. The beneficiary is 5 years younger. We use the combination of teacher 65 and beneficiary 5 years younger and find the option factor .6208. Hence, Mr. M will receive $7,000 x .6208, or $4,346 yearly for life. A more accurate calculation (with a more complete table) would result in an annual allowance of $4,366 annually. In other words, using the combination of age 65 for the teacher and 60 for his wife gives a close approximation.*

*Illustration 2*: Mrs. F retires at age 62 and names her husband, age 73, as beneficiary under Option II. Mrs. F can receive $6,000 yearly on maximum allowance. What will she receive under Option II?

Table 8 gives us Option II factors for a woman teacher with a male beneficiary. We don't find a column for a teacher, age 62. Teacher 60 is the nearest column. Her husband is 11 years older than Mrs. F. A woman teacher of 60 with a male beneficiary 11 years older gives us the factor .9198. Now, $6,000 x .9198 yields $5,518 for Mrs. F. A more complete table would give us $5,523 as the annual allowance for Mrs. F.

It is clear that the use of a neighboring column gives a fairly close approximation. It is important to note that the *difference in age between teacher and beneficiary* is most significant.

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* The reader with more training in mathematics might prefer to use interpolation to find the Option II factor for a combination of teacher and beneficiary that does not appear in the table.

TABLE 11

## SEVERAL OPTION II FACTORS

### Service Retirement

**Applicable to Teachers Appointed After June 30, 1947**
**(Explanation: M60 F55 means a male teacher, age 60 at retirement, with a female beneficiary, age 55.)**

| Teacher and Beneficiary | Option II Factor | Teacher and Beneficiary | Option II Factor |
|---|---|---|---|
| M55 F55 | .6742 | F65 M65 | .8136 |
| M60 F55 | .6161 | F65 M70 | .8681 |
| M60 F58 | .6500 | F70 M68 | .7761 |
| M65 F57 | .5686 | F70 M71 | .8164 |
| M65 F60 | .6046 | | |
| M65 F62 | .6303 | F55 F58 | .8248 |
| M70 F55 | .4678 | F55 F60 | .8426 |
| M70 F62 | .5490 | F55 F68 | .9067 |
| M70 F66 | .6049 | F60 F25 | .5124 |
| M70 F68 | .6352 | F60 F35 | .5627 |
| M71 F69 | .6331 | F60 F55 | .7308 |
| | | F60 F57 | .7520 |
| | | F60 F65 | .8365 |
| F55 M55 | .8339 | F65 F62 | .7323 |
| F55 M60 | .8745 | F65 F68 | .8066 |
| F55 M62 | .8897 | F70 F60 | .6153 |
| F60 M57 | .7940 | | |
| F60 M60 | .8240 | M60 M25 | .4502 |
| F60 M62 | .8436 | M65 M70 | .7906 |
| F60 M65 | .8713 | M70 M64 | .6300 |

*Example 1*: A man, appointed in September 1947, retires at age 65, naming his wife, age 60, as beneficiary under Option II. If his maximum retirement allowance is $7,000, what will he receive under Option II?

Since the teacher was appointed after June 1947, we use Table 11. The Option II factor given in the table for a male teacher of 65 with a female beneficiary of 60 is .6046. The teacher will receive $7,000 x .6046, or $4,232 a year for life. Upon his death, his wife, if she survives, will continue to receive $4,232 annually as long as she lives.

*Example 2*: A woman of 60 retires under Option II, naming her sister, five years older, as beneficiary. The teacher was appointed in 1948. Her maximum retirement allowance is $7,100. How much will her reduced retirement allowance be under the option?

We use Table 11 in this case also. The Option II factor for a female teacher of 60 with a female beneficiary of 65 is .8365. Hence, the teacher will receive $7,100 x .8365, or $5,939 each year for life. Upon her death, her sister will continue to receive $5,939 as long as she lives.

CHAPTER 10

# OPTION III—SERVICE RETIREMENT

OPTION III is similar to Option II in that it provides the beneficiary with an annuity for life. The beneficiary under Option III receives one-half of the amount received by the teacher. Hence, the teacher's maximum allowance will not be reduced as much under Option III as under Option II.

The teacher must be reminded that, in the case of Option III, as in Option II, if the beneficiary predeceases the retired teacher, another beneficiary may *not* be substituted and there will be no change in the teacher's retirement allowance; upon the retired teacher's death, all retirement payments will cease.

## REDUCED ALLOWANCE UNDER OPTION III

When an option is chosen, the maximum allowance of the teacher is multiplied by a decimal called the *Option Factor* in order to obtain the teacher's reduced allowance. For Option III, as in Option II, the option factor varies with the age and sex of both the teacher and the beneficiary.

Tables 12, 13, 14 and 15 give the Option III factors applicable to teachers who were appointed before July 1, 1947 (four percent contributors). Table 16 gives Option III factors for teachers appointed on and after that date (three percent contributors). A comparison of the Option III factors in Table 16 with the corresponding Option III factors in Tables 12-15 shows that the Option III factors, in the case of service retirement, are ALWAYS lower for three percent contributors than for four percent contributors.

The teacher must first calculate his maximum pension, or maximum annuity, or both maximum pension and maximum annuity. He then multiplies the maximum pension, or maximum annuity, or both by the appropriate Option III factor given in one of these tables. The result is the reduced allowance under Option III. Upon the death of the retired teacher, the beneficiary, if he survives, will receive monthly for life one-half of the monthly amount that the teacher had been receiving.

For a combination of teacher and beneficiary not given in Table 12, 13, 14 or 15, the reader may use the same method of approximating the reduced retirement allowance as that illustrated on page 53.

## TABLE 12

## OPTION III FACTOR
## MALE TEACHER WITH FEMALE BENEFICIARY
### Service Retirement

**Applicable to Teachers Appointed before July 1, 1947**

**Note:** 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 58 | Teacher 60 | Teacher 62 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .9143 | .9204 | .9242 | .9277 | +15 |
| +10 | .8833 | .8881 | .8911 | .8940 | +10 |
| + 9 | .8769 | .8812 | .8839 | .8865 | + 9 |
| + 8 | .8703 | .8741 | .8765 | .8788 | + 8 |
| + 7 | .8636 | .8669 | .8690 | .8709 | + 7 |
| + 6 | .8568 | .8596 | .8613 | .8629 | + 6 |
| + 5 | .8500 | .8523 | .8537 | .8548 | + 5 |
| + 4 | .8433 | .8450 | .8458 | .8466 | + 4 |
| + 3 | .8365 | .8375 | .8381 | .8384 | + 3 |
| + 2 | .8297 | .8302 | .8302 | .8300 | + 2 |
| + 1 | .8230 | .8228 | .8224 | .8217 | + 1 |
| 0 | .8164 | .8155 | .8145 | .8134 | 0 |
| — 1 | .8098 | .8081 | .8068 | .8051 | — 1 |
| — 2 | .8033 | .8009 | .7991 | .7968 | — 2 |
| — 3 | .7968 | .7938 | .7914 | .7887 | — 3 |
| — 4 | .7905 | .7868 | .7838 | .7806 | — 4 |
| — 5 | .7843 | .7799 | .7764 | .7723 | — 5 |
| — 6 | .7781 | .7730 | .7690 | .7647 | — 6 |
| — 7 | .7722 | .7662 | .7619 | .7569 | — 7 |
| — 8 | .7663 | .7598 | .7548 | .7490 | — 8 |
| — 9 | .7606 | .7533 | .7479 | .7419 | — 9 |
| —10 | .7550 | .7471 | .7412 | .7347 | —10 |
| —11 | .7496 | .7410 | .7346 | .7275 | —11 |
| —12 | .7443 | .7351 | .7281 | .7206 | —12 |
| —13 | .7391 | .7293 | .7220 | .7139 | —13 |
| —14 | .7341 | .7237 | .7159 | .7073 | —14 |
| —15 | .7293 | .7182 | .7099 | .7009 | —15 |
| —20 | .7072 | .6934 | .6832 | .6721 | —20 |
| —25 | .6887 | .6726 | .6607 | .6477 | —25 |
| —30 | .6733 | .6554 | .6420 | .6277 | —30 |
| —35 | .6607 | .6412 | .6268 | .6112 | —35 |

(Table 12 continued on next page)

*Example*: A man age 62 retires, naming his wife four years younger as beneficiary under Option III. If his maximum retirement allowance is $7,000, what will his retirement allowance be under this option?

In Table 12, the Option III factor for a male teacher, age 62, with a female beneficiary 4 years younger is .7806. The teacher will receive $7,000 x .7806, or $5,464 per year for life. Upon his death, his wife, if she survives, will receive half as much, $2,732, annually as long as she lives.

TABLE 12 (Continued)

# OPTION III FACTOR
# MALE TEACHER WITH FEMALE BENEFICIARY

## Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 64 | Teacher 65 | Teacher 68 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .9312 | .9328 | .9374 | .9404 | +15 |
| +10 | .8966 | .8980 | .9018 | .9041 | +10 |
| + 9 | .8889 | .8901 | .8935 | .8955 | + 9 |
| + 8 | .8809 | .8820 | .8849 | .8868 | + 8 |
| + 7 | .8728 | .8737 | .8760 | .8776 | + 7 |
| + 6 | .8644 | .8651 | .8669 | .8681 | + 6 |
| + 5 | .8559 | .8565 | .8576 | .8583 | + 5 |
| + 4 | .8473 | .8475 | .8481 | .8483 | + 4 |
| + 3 | .8385 | .8385 | .8383 | .8380 | + 3 |
| + 2 | .8296 | .8295 | .8285 | .8277 | + 2 |
| + 1 | .8208 | .8203 | .8186 | .8171 | + 1 |
| 0 | .8120 | .8112 | .8085 | .8065 | 0 |
| — 1 | .8032 | .8020 | .7986 | .7959 | — 1 |
| — 2 | .7944 | .7930 | .7885 | .7853 | — 2 |
| — 3 | .7856 | .7839 | .7785 | .7746 | — 3 |
| — 4 | .7769 | .7749 | .7685 | .7639 | — 4 |
| — 5 | .7683 | .7660 | .7587 | .7534 | — 5 |
| — 6 | .7599 | .7573 | .7490 | .7429 | — 6 |
| — 7 | .7515 | .7487 | .7394 | .7327 | — 7 |
| — 8 | .7434 | .7401 | .7299 | .7226 | — 8 |
| — 9 | .7353 | .7319 | .7207 | .7125 | — 9 |
| —10 | .7276 | .7238 | .7116 | .7029 | —10 |
| —11 | .7199 | .7158 | .7027 | .6933 | —11 |
| —12 | .7124 | .7081 | .6941 | .6840 | —12 |
| —13 | .7051 | .7005 | .6857 | .6749 | —13 |
| —14 | .6981 | .6932 | .6775 | .6662 | —14 |
| —15 | .6912 | .6861 | .6696 | .6576 | —15 |
| —20 | .6600 | .6537 | .6334 | .6188 | —20 |
| —25 | .6339 | .6266 | .6031 | .5864 | —25 |
| —30 | .6123 | .6041 | .5782 | .5597 | —30 |
| —35 | .5946 | .5859 | .5579 | .5381 | —35 |

*Example:* A man retires at age 68, naming his sister, age 70, as beneficiary under Option III. If his maximum retirement allowance is $6,600, what will he receive under Option III?

In Table 12, the Option III factor for a male teacher of 68 with a female beneficiary 2 years older is .8285. The teacher will receive $6,600 x .8285, or $5,468 a year for life. Upon his death, his sister, if she survives, will receive half as much, or $2,734 each year as long as she lives.

TABLE 13

## OPTION III FACTOR
## FEMALE TEACHER WITH MALE BENEFICIARY
### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; −10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .9692 | .9711 | .9730 | .9750 | +15 |
| +14 | .9664 | .9681 | .9699 | .9718 | +14 |
| +13 | .9635 | .9650 | .9666 | .9684 | +13 |
| +12 | .9605 | .9617 | .9630 | .9646 | +12 |
| +11 | .9574 | .9582 | .9592 | .9605 | +11 |
| +10 | .9540 | .9545 | .9551 | .9561 | +10 |
| + 9 | .9506 | .9506 | .9507 | .9513 | + 9 |
| + 8 | .9469 | .9464 | .9461 | .9462 | + 8 |
| + 7 | .9432 | .9421 | .9412 | .9407 | + 7 |
| + 6 | .9393 | .9376 | .9361 | .9350 | + 6 |
| + 5 | .9354 | .9330 | .9308 | .9288 | + 5 |
| + 4 | .9313 | .9282 | .9251 | .9224 | + 4 |
| + 3 | .9271 | .9232 | .9193 | .9157 | + 3 |
| + 2 | .9229 | .9182 | .9133 | .9086 | + 2 |
| + 1 | .9185 | .9130 | .9071 | .9013 | + 1 |
| 0 | .9141 | .9076 | .9007 | .8936 | 0 |
| − 1 | .9095 | .9021 | .8941 | .8858 | − 1 |
| − 2 | .9051 | .8967 | .8874 | .8778 | − 2 |
| − 3 | .9005 | .8910 | .8806 | .8696 | − 3 |
| − 4 | .8959 | .8854 | .8737 | .8613 | − 4 |
| − 5 | .8913 | .8797 | .8667 | .8528 | − 5 |
| − 6 | .8867 | .8740 | .8597 | .8443 | − 6 |
| − 7 | .8821 | .8683 | .8526 | .8356 | − 7 |
| − 8 | .8775 | .8626 | .8456 | .8270 | − 8 |
| − 9 | .8729 | .8569 | .8385 | .8183 | − 9 |
| −10 | .8684 | .8512 | .8316 | .8096 | −10 |
| −15 | .8466 | .8239 | .7976 | .7675 | −15 |
| −20 | .8268 | .7990 | .7664 | .7289 | −20 |
| −25 | .8094 | .7777 | .7390 | .6951 | −25 |
| −30 | .7945 | .7584 | .7158 | .6665 | −30 |
| −35 | .7820 | .7428 | .6964 | .6428 | −35 |

*Example*: A woman of 60 retires, naming her husband, age 65, as beneficiary under Option III. If her maximum retirement allowance is $6,000, what will her retirement allowance be under Option III?

In Table 13, the Option III factor for a female teacher, age 60, with a male beneficiary 5 years older is .9330. The teacher will receive $6,000 x .9330, or $5,598 per year for life. Upon her death, her husband, if he survives, will receive half as much, or $2,799 a year as long as he lives.

TABLE 14

## OPTION III FACTOR
## FEMALE TEACHER WITH FEMALE BENEFICIARY

### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +15 | .9588 | .9603 | .9619 | .9638 | +15 |
| +14 | .9555 | .9566 | .9580 | .9596 | +14 |
| +13 | .9519 | .9527 | .9538 | .9550 | +13 |
| +12 | .9483 | .9486 | .9492 | .9501 | +12 |
| +11 | .9443 | .9443 | .9444 | .9448 | +11 |
| +10 | .9404 | .9398 | .9393 | .9392 | +10 |
| + 9 | .9363 | .9350 | .9339 | .9332 | + 9 |
| + 8 | .9320 | .9301 | .9282 | .9267 | + 8 |
| + 7 | .9277 | .9250 | .9223 | .9201 | + 7 |
| + 6 | .9232 | .9197 | .9162 | .9131 | + 6 |
| + 5 | .9185 | .9143 | .9099 | .9057 | + 5 |
| + 4 | .9138 | .9087 | .9033 | .8980 | + 4 |
| + 3 | .9091 | .9030 | .8966 | .8902 | + 3 |
| + 2 | .9042 | .8972 | .8896 | .8820 | + 2 |
| + 1 | .8993 | .8913 | .8826 | .8736 | + 1 |
| 0 | .8944 | .8853 | .8754 | .8650 | 0 |
| — 1 | .8893 | .8792 | .8681 | .8562 | — 1 |
| — 2 | .8843 | .8731 | .8607 | .8473 | — 2 |
| — 3 | .8793 | .8670 | .8532 | .8383 | — 3 |
| — 4 | .8742 | .8608 | .8457 | .8292 | — 4 |
| — 5 | .8692 | .8547 | .8382 | .8202 | — 5 |
| — 6 | .8642 | .8485 | .8307 | .8110 | — 6 |
| — 7 | .8593 | .8424 | .8232 | .8019 | — 7 |
| — 8 | .8543 | .8364 | .8157 | .7928 | — 8 |
| — 9 | .8495 | .8303 | .8084 | .7838 | — 9 |
| —10 | .8447 | .8244 | .8011 | .7748 | —10 |
| —15 | .8218 | .7962 | .7663 | .7323 | —15 |
| —20 | .8013 | .7708 | .7351 | .6943 | —20 |
| —25 | .7835 | .7488 | .7082 | .6616 | —25 |
| —30 | .7683 | .7302 | .6854 | .6342 | —30 |
| —35 | .7556 | .7148 | .6670 | .6116 | —35 |

*Example*: A woman of 65 retires, naming her sister, age 60, as beneficiary under Option III. If this teacher's maximum retirement allowance is $6,500, how large is her retirement allowance under this option?

In Table 14, the Option III factor for a female teacher of 65 with a female beneficiary 5 years younger is .8382. The teacher will receive $6,500 x .8382, or $5,448 a year for life. Upon her death, her sister, if she survives, will receive half as much, or $2,724 per year as long as she lives.

TABLE 15

## OPTION III FACTOR
## MALE TEACHER WITH MALE BENEFICIARY

### Service Retirement

Applicable to Teachers Appointed before July 1, 1947

Note: 1. Teacher 55 means that the teacher's nearest age at retirement is 55.
2. In first and last columns, +10 means beneficiary is 10 years older than teacher; —10 means beneficiary is 10 years younger than teacher.

| Beneficiary | Teacher 55 | Teacher 60 | Teacher 65 | Teacher 70 | Beneficiary |
|---|---|---|---|---|---|
| +10 | .9062 | .9145 | .9220 | .9288 | +10 |
| + 9 | .9003 | .9082 | .9152 | .9217 | + 9 |
| + 8 | .8944 | .9016 | .9083 | .9143 | + 8 |
| + 7 | .8882 | .8949 | .9010 | .9064 | + 7 |
| + 6 | .8820 | .8881 | .8934 | .8982 | + 6 |
| + 5 | .8758 | .8811 | .8856 | .8897 | + 5 |
| + 4 | .8695 | .8739 | .8777 | .8808 | + 4 |
| + 3 | .8632 | .8667 | .8695 | .8717 | + 3 |
| + 2 | .8568 | .8594 | .8611 | .8623 | + 2 |
| + 1 | .8504 | .8520 | .8527 | .8526 | + 1 |
| 0 | .8441 | .8447 | .8442 | .8428 | 0 |
| — 1 | .8378 | .8373 | .8355 | .8327 | — 1 |
| — 2 | .8316 | .8298 | .8268 | .8226 | — 2 |
| — 3 | .8254 | .8225 | .8182 | .8124 | — 3 |
| — 4 | .8192 | .8152 | .8095 | .8022 | — 4 |
| — 5 | .8131 | .8079 | .8008 | .7920 | — 5 |
| — 6 | .8072 | .8007 | .7923 | .7818 | — 6 |
| — 7 | .8013 | .7936 | .7837 | .7716 | — 7 |
| — 8 | .7955 | .7866 | .7753 | .7615 | — 8 |
| — 9 | .7898 | .7797 | .7670 | .7515 | — 9 |
| —10 | .7843 | .7730 | .7588 | .7417 | —10 |
| —15 | .7585 | .7415 | .7205 | .6953 | —15 |
| —20 | .7364 | .7142 | .6870 | .6546 | —20 |
| —25 | .7175 | .6910 | .6586 | .6202 | —25 |
| —30 | .7019 | .6718 | .6351 | .5917 | —30 |
| —35 | .6892 | .6561 | .6159 | .5687 | —35 |

*Example*: A man of 65 retires under Option III, naming his brother, age 56, as beneficiary. If his maximum retirement allowance is $7,200, how much will it be under Option III?

In Table 15, the Option III factor for a male teacher, age 65, with a male beneficiary 9 years younger is .7670. Hence, the teacher will receive $7,200 x .7670, or $5,522 annually for life. Upon his death, his brother, if he survives, will receive half as much, or $2,761 each year as long as he lives.

## TABLE 16
## SEVERAL OPTION III FACTORS

### Service Retirement

Applicable to Teachers Appointed After June 30, 1947
(Explanation: M60 F55 means a male teacher, age 60 at retirement; with a female beneficiary, age 55.)

| Teacher and Beneficiary | Option III Factor | Teacher and Beneficiary | Option III Factor |
|---|---|---|---|
| M55 F55 | .8054 | F65 M65 | .8972 |
| M60 F55 | .7625 | F65 M70 | .9294 |
| M60 F58 | .7879 | F70 M68 | .8739 |
| M65 F57 | .7249 | F70 M71 | .8989 |
| M65 F60 | .7536 | | |
| M65 F62 | .7732 | F55 F58 | .9039 |
| M70 F55 | .6375 | F55 F60 | .9146 |
| M70 F62 | .7088 | F55 F68 | .9511 |
| M70 F66 | .7538 | F60 F25 | .6776 |
| M70 F68 | .7769 | F60 F35 | .7202 |
| M71 F69 | .7753 | F60 F55 | .8445 |
| | | F60 F57 | .8584 |
| | | F60 F65 | .9110 |
| F55 M55 | .9094 | F65 F62 | .8455 |
| F55 M60 | .9330 | F65 F68 | .8929 |
| F55 M62 | .9416 | F70 F60 | .7618 |
| F60 M57 | .8852 | | |
| F60 M60 | .9035 | M60 M25 | .6209 |
| F60 M62 | .9151 | M65 M70 | .8830 |
| F60 M65 | .9312 | M70 M64 | .7730 |

*Example 1*: A woman, appointed in 1949, retires at age 60, naming her husband, age 65, as beneficiary under Option III. If the teacher's maximum retirement allowance is $7,100, what will she receive under Option III?

Since the teacher was appointed after June 1947, we use Table 16. According to this table, the Option III factor for a female teacher of 60 with a male beneficiary of 65 is .9312. Therefore, the teacher's reduced retirement allowance under Option III will be $7,100 x .9312, or $6,611. Upon her death, her husband, if he survives, will receive $3,305 per year as long as he lives.

*Example 2*: A man, who was appointed in 1948, retires at age 60. He named his wife, five years younger, as beneficiary under Option III. If his maximum retirement allowance is $7,000, what will he receive under the option?

We use Table 16. This table gives the Option III factor for a man of 60 with a female beneficiary of 55 as .7625. Hence, the teacher will receive $7,000 x .7625, or $5,337 per year for life. Upon his death, his wife, if she survives, will receive half as much, or $2,668 a year as long as she lives.

CHAPTER 11

# OPTION IV-a—SERVICE RETIREMENT

BESIDES OPTIONS I, II and III, there are three additional forms of retirement available to a teacher. They are designated as follows:

Option IV-a
Option IV-b
Option IV-c

Each of these will be considered in this and the two following chapters.

## OPTION IV-a

Under this option, the teacher provides that his beneficiary shall receive each year for life one-fourth of the pension or annuity or retirement allowance of the retired teacher, upon the latter's death. Instead of one-fourth, another fraction may be chosen by the teacher, subject to the approval of the Retirement Board.

Under Option IV-a, as under Options II and III, the beneficiary may not be changed after retirement. Should the beneficiary predecease the retired teacher, another beneficiary may *not* be substituted; all retirement payments will cease with the teacher's death.

## OPTION IV-a FACTOR

We shall confine ourselves to the case where the beneficiary is to receive one-fourth of the teacher's allowance. (Option IV-a is rarely chosen for a fraction other than one-fourth.)

Since comparatively few contributors choose Option IV-a, a table of Option IV-a factors has not been constructed.

There is a simple formula which gives the mathematical relationship between the Option III factor and the Option IV-a factor. It is this:

$$\text{Option IV-a Factor} = \frac{2 \times \text{Option III Factor}}{1 + \text{Option III Factor}}$$

By means of this formula, the Option IV-a factor in any given case can easily be obtained from the corresponding Option III factor by proceeding as follows:

(a) Multiply the Option III factor by 2.

(b) Add 1 to the Option III factor. (This is done simply by placing the digit 1 in front of the decimal value of the Option III factor.)

(c) Divide (a) by (b). The quotient is the Option IV-a factor.

For example, from Table 14, the Option III factor for a woman of 65 with a woman beneficiary 5 years younger is .8382. Substituting this value in the formula above,

$$\text{Option IV-a Factor} = \frac{2 \times .8382}{1 + .8382}$$

$$= \frac{1.6764}{1.8382}$$

$$= .9120$$

Hence, the Option IV-a factor for a woman of 65 with a woman beneficiary 5 years younger is .9120.

*Example*: A man retires at age 70 naming his daughter, age 40, as beneficiary. If his maximum retirement allowance is $7,500, what will he receive under Option IV-a if his daughter is to receive an annuity equal to one-fourth of his retirement allowance upon his death?

From Table 12, the Option III factor for a man of 70 with a female beneficiary 30 years younger is .5597.

To find the Option IV-a factor, substitute .5597 for the Option III factor in the formula given above. Hence,

$$\text{Option IV-a Factor} = \frac{2 \times .5597}{1 + .5597}$$

$$= \frac{1.1194}{1.5597}$$

$$= .7177$$

The Option IV-a factor in this case is .7177.

The teacher's reduced retirement allowance under Option IV-a can now be easily obtained by multiplying his maximum retirement allowance of $7,500 by the Option IV-a factor, .7177. The product is about $5,382. Hence, the man will receive $5,382 yearly for life. Upon his death, his daughter, if living, will receive one-fourth of $5,382, or about $1,345 each year as long as she lives.

CHAPTER 12

# OPTION IV-b—SERVICE RETIREMENT

OPTION IV-b is sometimes referred to as the "life insurance" option because, like life insurance, it provides that a specified lump sum shall be paid to the beneficiary (or the estate) of a retired teacher upon his death. Also, since January 1, 1962, a teacher retiring under Option IV-b may, under certain conditions, elect to have a specified lump sum paid in the form of an annuity to a designated beneficiary; this right is similar to that available in most insurance policies.

## BENEFIT PAID AS A LUMP SUM

The teacher choosing Option IV-b may provide that his beneficiary shall receive a lump sum of $1,000 or any multiple of $1,000; however, the lump sum may not exceed the annuity reserve (total contributions of the teacher plus interest).

As in the case of other retirement options, the cost of Option IV-b depends on the age and sex of the teacher and, of course, on the amount set aside for the beneficiary.

Option IV-b provides that a *fixed sum,* selected by the teacher, shall be paid to the beneficiary or estate upon the death of the teacher, regardless of the number of years he lives after retirement. It is particularly useful in the case where the teacher's probable span of life, based upon his own health and the history of longevity in his family, is of normal length or better. Some teachers with no dependents have chosen to leave a small lump sum, say $2,000 or $3,000, under this option to pay for funeral and other final expenses.

## COST OF OPTION IV-b

Table 17 enables a teacher to calculate his reduced retirement allowance if he retires for service under Option IV-b.

The teacher first finds the cost per $1,000 in the appropriate column of Table 17 on the line corresponding to his age. He then multiplies this figure by 2, if he selects Option IV-b for $2,000; by 3 for $3,000, etc. The teacher need only subtract this cost from his maximum retirement allowance. The result is his reduced retirement allowance under Option IV-b for the lump sum selected.

*Example 1*: Miss R, appointed in 1927, retires at age 57 under Option IV-b, making her niece the beneficiary of a $10,000 lump sum payment. Her maximum annual retirement allowance is $5,000. What will her reduced allowance be under this option?

TABLE 17

ANNUAL COST PER $1,000 CASH PAYMENT UNDER OPTION IV-b

Service Retirement

| Age at Retirement | Teacher Appt'd Before Sept. '43 | | Teacher Appt'd After Aug. '43 & Before July '47 | | Teacher Appt'd After June '47 | | Age at Retirement |
|---|---|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | Man | Woman | |
| 50 | 35.64 | 28.41 | 30.20 | 25.21 | 32.70 | 27.67 | 50 |
| 51 | 37.23 | 29.74 | 31.64 | 26.35 | 34.15 | 28.82 | 51 |
| 52 | 38.91 | 31.15 | 33.17 | 27.56 | 35.69 | 30.04 | 52 |
| 53 | 40.71 | 32.65 | 34.79 | 28.84 | 37.32 | 31.34 | 53 |
| 54 | 42.61 | 34.24 | 36.52 | 30.20 | 39.05 | 32.70 | 54 |
| 55 | 44.65 | 35.93 | 38.35 | 31.64 | 40.89 | 34.15 | 55 |
| 56 | 46.82 | 37.73 | 40.30 | 33.17 | 42.84 | 35.69 | 56 |
| 57 | 49.12 | 39.64 | 42.38 | 34.79 | 44.92 | 37.32 | 57 |
| 58 | 51.59 | 41.68 | 44.59 | 36.52 | 47.13 | 39.05 | 58 |
| 59 | 54.21 | 43.85 | 46.96 | 38.35 | 49.48 | 40.89 | 59 |
| 60 | 57.02 | 46.15 | 49.47 | 40.30 | 51.99 | 42.84 | 60 |
| 61 | 60.02 | 48.62 | 52.15 | 42.38 | 54.68 | 44.92 | 61 |
| 62 | 63.24 | 51.25 | 55.02 | 44.59 | 57.53 | 47.13 | 62 |
| 63 | 66.67 | 54.06 | 58.09 | 46.96 | 60.59 | 49.48 | 63 |
| 64 | 70.36 | 57.05 | 61.37 | 49.47 | 63.86 | 51.99 | 64 |
| 65 | 74.30 | 60.26 | 64.89 | 52.15 | 67.35 | 54.68 | 65 |
| 66 | 78.53 | 63.70 | 68.65 | 55.02 | 71.10 | 57.53 | 66 |
| 67 | 83.07 | 67.38 | 72.68 | 58.09 | 75.11 | 60.59 | 67 |
| 68 | 87.96 | 71.32 | 77.01 | 61.37 | 79.42 | 63.86 | 68 |
| 69 | 93.21 | 75.54 | 81.65 | 64.89 | 84.04 | 67.35 | 69 |
| 70 | 98.86 | 80.08 | 86.65 | 68.65 | 89.00 | 71.10 | 70 |
| 71 | 104.94 | 84.94 | 92.01 | 72.68 | 94.34 | 75.11 | 71 |

Consulting Table 17, we find that, for a woman teacher, age 57 and appointed before September 1943, the cost per year for each $1,000 under Option IV-b is $39.64. Hence, $10,000 will cost Miss R about $397. Her retirement allowance will accordingly be reduced from $5,000 to $4,603. Upon her death, her niece will receive a lump sum of $10,000. Miss R may substitute another beneficiary at any time. If her niece predeceases her and no other beneficiary is named, the sum of $10,000 will be paid to Miss R's estate.

*Example 2*: Mr. S, appointed in 1944, expects to retire at age 65 under Option IV-b. Assume that his maximum retirement allowance will be $7,000. If he should name his son as beneficiary to receive a lump sum of $15,000, how much will Mr. S receive as a retirement allowance?

From Table 17, a male teacher, appointed after August 1943 and before July 1947, retiring at age 65, will pay $64.89 yearly for each $1,000 reserved for his beneficiary. Therefore, $15,000 will cost Mr. S 15 x $64.89, or about $973. His maximum retirement allowance of $7,000 will be reduced by $973. Mr. S will accordingly receive $6,027 annually for life. Upon his death, his son will receive a lump sum of $15,000. The beneficiary named in the option may be changed by the teacher, even after retirement.

## BENEFIT PAID AS AN ANNUITY

In the opening paragraph of this chapter, we stated that a teacher retiring under Option IV-b may, under certain conditions, elect to have the lump sum specified therein paid to the beneficiary in the form of an annuity for life. This right was granted by the Retirement Board shortly before the State Legislature amended the Retirement law to permit a beneficiary under Option I to receive an annuity for life instead of a lump sum.

These two new options (Options I and IV-b with the benefit payable as an annuity) are valuable additions to the list of options on retirement that have hitherto been available to teachers.

The right to have the benefit under Option IV-b paid in the form of an annuity assures the teacher that his beneficiary will receive regular monthly income for life. This right is especially useful in the case of a beneficiary who is incapable of handling large sums of money prudently.

However, it must be remembered that, where an annuity is chosen for the beneficiary, should the beneficiary die after the decease of the teacher, no further payments can be made to anyone.

## CONDITIONS TO BE MET

The special conditions under which the benefit under Option IV-b may be paid in the form of an annuity are as follows:

1. The specified lump sum reserved for the beneficiary who is to receive an annuity under Option IV-b must be not less than $10,000.

2. Not more than three beneficiaries shall have been designated at any time to receive the lump sum under this option.

3. If more than one beneficiary was named to receive the specified lump sum, the teacher may elect, either at the time of retirement or on a subsequent date, to eliminate all but one of the designated beneficiaries, and to have the lump sum paid to the remaining beneficiary, in the form of an annuity for life.

4. If the beneficiary designated to receive an annuity under this option predeceases the retired teacher or if the retired teacher desires to change the beneficiary, the benefit will be paid in the form of a *lump sum only* to a newly designated beneficiary or beneficiaries or, in the absence of such designation, to the teacher's estate.

## CALCULATION OF ANNUITY TO BENEFICIARIES

The Retirement Board resolution relating to Option IV-b requires that, as in the case of Option I, the table to be used in calculating the annuity to the beneficiary under Option IV-b shall be the same as that used to calculate the annuity payable to the beneficiary under Option A. The table used to calculate the annuity to the beneficiary under Option A is Table 24 in Chapter 18. Table 6, given in Chapter 8, is identical with Table 24. Either table may be used. We shall refer to Table 6 in our discussion below.

The annuity payable under Option IV-b depends on the age and sex of the beneficiary at the *time of death of the retired teacher.* It will, of course, also depend on the amount of the lump sum payable to the beneficiary.

Table 6 will enable one to calculate the beneficiary's annual annuity beginning on the date of death of the teacher. The lump sum is multiplied by the appropriate Option A factor given in the table. The result is the beneficiary's annuity for life.

*Example 1*: Mr. T, appointed in 1925, retires at age 64 under Option IV-b. He named his two sisters, Miss A and Mrs. B, as beneficiaries to share equally after his death in the lump sum of $20,000 specified in the option. His maximum retirement allowance is $6,800 per year. What is Mr. T's reduced retirement allowance?

First, we shall determine the cost to Mr. T of Option IV-b for $20,000. Using Table 17, we find that for a man of 64, appointed before September 1943, the cost of $1,000 lump sum under Option IV-b is $70.36 per year. Hence, the cost of $20,000 under Option IV-b is 20 x $70.36, or about $1,407 per year. Mr. T's reduced retirement allowance is $6,800 less $1,407, or $5,393.

*Example 2*: Referring to Example 1 above, one year after his retirement Mr. T decides to have the lump sum of $20,000 paid, upon his death, to Miss A in the form of an annuity, thus eliminating Mrs. B as a beneficiary. Mr. T dies several years later when Miss A is 68 years old. How large is her annual annuity?

When Mr. T dies, Miss A is 68 years old. Her annuity will be calculated by using Table 6. According to this table, a woman of 68 who is the beneficiary under Option IV-b will receive $.1042 per year for each dollar in the lump sum specified in the option. Hence, Miss A will receive $20,000 x .1042, or $2,084 per year for life.

Had Miss A died before Teacher T, he could have elected to have the benefit under Option IV-b paid to Mrs. B or to any other person; but, under present regulations, it could be paid only in a lump sum. If Mr. T failed to name a new beneficiary after Miss A's death, the lump sum would be paid to Mr. T's estate.

## IMPORTANT NOTE

Although Option IV-b has been selected by many teachers in recent years, all teachers are urged to have Option I on file at the Retirement Office. This is recommended in order to provide maximum protection for dependents while the teacher is in active service. At retirement, Option I may be changed to Option IV-b or to any other option.

CHAPTER 13

# OPTION IV-c—SERVICE RETIREMENT

OPTION IV-c, despite the designation IV, really is a member of the Option I family. There are four members in the family:

1. First, we have Option I without any modification. Here both the *pension* reserve and the *annuity* reserve are guaranteed to the teacher and his beneficiaries. If the retired teacher chooses Option I and does not, before he dies, receive the full amount in the pension and annuity reserves, then the balance must be paid to his beneficiaries.

2. The second member in the Option I family is Option I on the *Pension* only. Here only the *Pension* or city reserve is guaranteed to the teacher and his beneficiaries.

3. The teacher may choose the third type of Option I. He may select Option I on the *Annuity* only. Here only the *Annuity* reserve is guaranteed.

4. The fourth member of the family is called Option IV-c. Here, too, only the *Annuity* reserve is guaranteed. However, under this option, the guaranteed reserve decreases more rapidly than under Option I on the *Annuity* only—about twice as rapidly. An illustration will best clarify the difference.

*Example*: Mrs. T retires at age 62. If she chooses no option, she is entitled to a retirement allowance of $6,015 yearly—consisting of a city *pension* of $3,300 and an *annuity* of $2,715. Her annuity reserve is $30,000. This sum represents Mrs. T's contributions during her teaching years, with interest added. This teacher has two relatively inexpensive plans for *guaranteeing this $30,000 reserve.*

*Plan A.* Mrs. T chooses Option I on the *Annuity* only. Under this choice, her pension will remain $3,300; her annuity will be reduced to $2,283. Her total annual allowance will then be $5,583. Her insurance at the time of retirement will be the annuity reserve of $30,000. This insurance will be reduced annually by the yearly annuity of $2,283.

If Mrs. T should live only five years after retirement, the annuity reserve will be reduced by 5 x \$2,283, or by \$11,415. The beneficiaries will then receive the difference between \$30,000 and \$11,415, or the sum of \$18,585.

*Plan B.* Let us now assume that Mrs. T, under the facts given above, chooses Option IV-c. Her pension will again remain \$3,300. Her annuity will be reduced from a maximum of \$2,715 to \$2,518; her total annual allowance will now be \$5,818 (as compared with \$5,583 under Option I on the *Annuity*). Her initial insurance will again be the annuity reserve of \$30,000. However, this insurance will be reduced more rapidly—by twice the annual annuity each year—by twice \$2,518. The reduction in the reserve will then be \$5,036 yearly.

If Mrs. T should die five years after retirement, the annuity reserve will be reduced by 5 x \$5,036, or by \$25,180. The beneficiaries will then receive the difference between \$30,000 and \$25,180, or \$4,820.

Note that Option IV-c is less expensive than any of the other selections under Option I; however, the insurance (or reserve) decreases at a faster rate.

TABLE 18

OPTION IV-c FACTOR

Service Retirement

Applicable to Teachers Appointed Before July 1, 1947*

| Age at Retirement | Man | Woman | Age at Retirement |
|---|---|---|---|
| 55 | .9014 | .9439 | 55 |
| 56 | .9004 | .9421 | 56 |
| 57 | .8996 | .9403 | 57 |
| 58 | .8980 | .9379 | 58 |
| 59 | .8962 | .9354 | 59 |
| 60 | .8944 | .9329 | 60 |
| 61 | .8926 | .9302 | 61 |
| 62 | .8907 | .9276 | 62 |
| 63 | .8889 | .9251 | 63 |
| 64 | .8872 | .9223 | 64 |
| 65 | .8856 | .9188 | 65 |
| 66 | .8831 | .9153 | 66 |
| 67 | .8802 | .9116 | 67 |
| 68 | .8771 | .9082 | 68 |
| 69 | .8741 | .9048 | 69 |
| 70 | .8713 | .9017 | 70 |
| 71 | .8687 | .8975 | 71 |

* The corresponding figures for those appointed on and after July 1, 1947 are somewhat smaller than those shown above.

## OPTION IV-c FACTOR

Table 18 gives the Option IV-c factors on service retirement applicable to all teachers who were appointed before July 1, 1947. The Option IV-c factors for those appointed after June 1947 are somewhat lower than the corresponding figures shown in the table.

The teacher's maximum annuity must be multiplied by the appropriate Option IV-c factor given in the table. The product is the teacher's reduced annuity under Option IV-c. The pension from the city must be added to the reduced annuity to obtain the teacher's retirement allowance under the option.

*Example*: Mr. W, who was appointed in 1920, retires at age 65. His annuity reserve amounts to $26,400. His maximum retirement allowance is $6,500, consisting of an annuity of $3,000 and a pension of $3,500. What will his retirement allowance be if he chooses Option IV-c?

From Table 18, Mr. W's annuity will be $3,000 x .8856, or about $2,657 per year. His pension will remain $3,500. His retirement allowance under Option IV-c will be the sum of $2,657 and $3,500, or $6,157 per year.

If Mr. W should die one year after retirement, his beneficiary will receive a lump sum equal to $26,400 *less* 2 x $2,657, namely, $21,086. If Mr. W should die at the end of the second year after his retirement, his beneficiary will receive $26,400 *less* 4 x $2,657, or $15,772.

Each year *twice* the amount of the reduced annuity ($2,657) will be deducted from the annuity reserve. Upon the death of the retired teacher, the remainder of the annuity reserve, if any, will be paid to the beneficiary. At the end of about five years, there will be nothing left for the beneficiary, but the retired teacher will continue to receive his retirement allowance of $6,157 for life.

The chief advantage of Option IV-c is its low cost to the retired teacher. Since this option gives protection to the beneficiary for a comparatively short period, a teacher with dependents should investigate all available options before deciding that Option IV-c is the most desirable one for him.

CHAPTER 14

# DISABILITY RETIREMENT ALLOWANCE

A TEACHER may be retired for disability if, after ten years of city service, he is physically or mentally unable to perform his school duties.

A teacher retiring for disability receives a retirement allowance for the rest of his life. This allowance, as in the case of service retirement, consists of a *pension* from funds provided by the city and an *annuity* from contributions by the teacher.

This chapter will explain how to calculate the disability retirement allowance when the teacher retires on maximum allowance, that is, without an option. Chapters 15, 16 and 17 will be devoted to the calculation of the retirement allowance when the teacher chooses an option. We shall first consider the annuity part of the maximum retirement allowance.

## THE ANNUITY

The annuity depends on the amount in the teacher's annuity fund and on the age and sex of the teacher. Table 19 below gives the annuity for each dollar in the teacher's annuity fund at the time of disability retirement.

It will be observed that the annuity figures in Table 19 for those appointed after June 1947 are smaller than for those appointed prior to July 1947. This is due to the fact that for teachers appointed after June 1947, interest on their contributions is credited at the rate of three percent per year, whereas the rate of interest on the contributions of teachers appointed prior to July 1947 is four percent. Should legislation be enacted granting four percent interest on contributions of teachers appointed after June 1947, only one set of annuity figures will be used for all teachers retiring for disability; namely, the set on the left in Table 19, which is now used exclusively for teachers appointed prior to July 1947.

TABLE 19

## ANNUITY PER DOLLAR IN ANNUITY FUND*

### Disability Retirement

Applicable to all teachers except those eligible for service retirement

| Age | Teacher Appointed Before July 1947 | | Teacher Appointed After June 1947 | | Age |
|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | |
| 38 | .0703 | .0667 | .0621 | .0587 | 38 |
| 39 | .0705 | .0669 | .0625 | .0589 | 39 |
| 40 | .0709 | .0672 | .0629 | .0593 | 40 |
| 41 | .0714 | .0677 | .0635 | .0598 | 41 |
| 42 | .0720 | .0682 | .0641 | .0604 | 42 |
| 43 | .0727 | .0688 | .0648 | .0611 | 43 |
| 44 | .0735 | .0696 | .0657 | .0618 | 44 |
| 45 | .0744 | .0704 | .0665 | .0627 | 45 |
| 46 | .0753 | .0713 | .0675 | .0636 | 46 |
| 47 | .0763 | .0722 | .0685 | .0645 | 47 |
| 48 | .0773 | .0732 | .0696 | .0656 | 48 |
| 49 | .0784 | .0743 | .0707 | .0666 | 49 |
| 50 | .0796 | .0754 | .0719 | .0678 | 50 |
| 51 | .0809 | .0766 | .0732 | .0690 | 51 |
| 52 | .0823 | .0779 | .0746 | .0703 | 52 |
| 53 | .0837 | .0793 | .0760 | .0717 | 53 |
| 54 | .0852 | .0807 | .0776 | .0732 | 54 |
| 55 | .0868 | .0822 | .0792 | .0747 | 55 |
| 56 | .0886 | .0839 | .0810 | .0764 | 56 |
| 57 | .0904 | .0856 | | | |
| 58 | .0924 | .0875 | | | |
| 59 | .0945 | .0894 | | | |
| 60 | .0967 | .0915 | | | |
| 61 | .0993 | .0938 | | | |
| 62 | .1017 | .0962 | | | |
| 63 | .1044 | .0988 | | | |
| 64 | .1073 | .1015 | | | |
| 65† | .1104 | .1044 | | | |

* Also special pension per dollar in special pension reserve upon retirement for disability.

† Figures for age 65 are given for those retiring for disability over 64½ who have not reached age 65.

In order to obtain the annuity of a teacher retiring for disability, one simply multiplies the amount in the annuity fund by the appropriate figure in Table 19. The result is the yearly annuity part of the teacher's maximum retirement allowance.

A comparison of Table 19 with Table 1, which gives the multiplier for calculating the annuity for service retirement, shows that the annuity is larger for disability than for service retirement.*

* Exception: For a male teacher appointed before September 1943 the annuity is larger under service than under disability retirement if he is 62 or older.

*A teacher who is eligible for service retirement may be retired for disability; however, in that case, the service retirement annuity table (Table 1) will be used.*

*Example 1*: Mrs. H, appointed in 1938 retired for disability at age 53. The balance in her annuity fund at the time of retirement was $20,000. How large is the annuity part of her retirement allowance?

Table 19 indicates that for a woman of 53, appointed before July 1947, the annuity multiplier is .0793. Hence, Mrs. H's annuity will be $20,000 x .0793, or $1,586 per year for life. The city's contributions will provide the pension part of Mrs. H's retirement allowance. (The calculation of the pension will be explained later on in this chapter.)

*Example 2*: Mr. J, appointed in 1948, retires for disability at age 54. Assume that his contributions with interest amount to $19,000. What is the amount of the annuity part of Mr. J's retirement allowance?

Mr. J was appointed after June 1947. Hence, the less favorable column of figures on the right in Table 19 must be used. This table shows that for a man, age 54, the annuity multiplier is .0776. Accordingly, Mr. J's annuity amounts to $19,000 x .0776, or $1,474 annually for life. In addition, he receives a pension from funds furnished by the city. Together, the pension and the annuity constitute the teacher's retirement allowance.

## THE PENSION

The pension part of the disability retirement allowance is composed of two separate sums: (a) a *normal pension* resulting from the city's normal contributions and (b) a *special pension* derived from the additional payment assumed by the city since July 1960, in order to provide the teacher with increased take-home pay.

## NORMAL PENSION

For a teacher under the old law (one who has not elected coverage under the Clancy law), the normal pension is 20% of his average salary plus an additional 1/5 of 1% for each year of city service in excess of 10 years. The maximum normal pension in his case is 25% of average salary.

For one who is covered under the Clancy law, the normal pension is 1% of average salary multiplied by the number of years of credited service. However, the law provides that, if a teacher under the Clancy law retires for disability, his normal pension *shall not be* *less than it would have been had he not elected Clancy coverage.*

For example, under the old law, a teacher who retires for disability after 20 years of city service receives a normal pension of 22% of his average salary (20% plus 2% for the 10 years in excess of 10 years of city service). Under the Clancy law it would appear that this teacher's normal pension is 20% (1% for each year of service). Since the normal pension of a teacher under the Clancy law shall not be less than it would have been under the old law, this teacher will receive a normal pension of 22% of his average salary.

## THE SPECIAL PENSION

Since July 1, 1960, the city has been paying a part of each teacher's contributions for him. The city pays this in addition to the normal rate required to furnish the teacher with a normal pension. This additional payment by the city, with interest, is used to provide a *special pension* at retirement, calculated in the same manner as the annuity furnished by the teacher's own contributions.

Table 3 on page 27 gives the amount of the special pension reserve (that is, the additional payments by the city plus interest) on behalf of a classroom teacher who has been on maximum salary since July 1960. For a teacher retiring for disability, who has not been on maximum salary, an individual calculation of the special pension reserve must be made.

The annuity part of the disability retirement allowance was found by multiplying the amount in the annuity fund at retirement by the annuity multiplier shown in Table 19. In like manner, the special pension in the case of disability retirement is found by multiplying the special pension reserve (from Table 3 if the teacher has been on maximum salary) by the appropriate figure in Table 19.

*Example*: Miss K, appointed in September 1944, retired for disability in September 1963 at age 43. She was granted one salary differential in 1956. She was not entitled to any additional differential. She had served continuously since her appointment. How large was her special pension at retirement?

Since Miss K was appointed before July 1947 and since her salary is that of a teacher with one salary differential only, Table 3, Column B will be used in her case to find the special pension reserve. The figure shown in the table for September 1, 1963 is $1,290.

To determine Miss K's special pension, we use Table 19. This table shows that for a woman teacher of 43, appointed before July 1947, the annuity multiplier is .0688. Since the special pension reserve, in her case, amounted to $1,290, her special pension was $1,290 x

.0688, or $89 per year. This will be added to her normal pension to give the total pension part of her retirement allowance. Her maximum retirement allowance will also include the annuity part based upon the amount in her annuity fund at retirement.

## SUMMARY

To summarize the procedures given in this chapter, let us consider the case of Mrs. N who was appointed in September 1947. She retires for disability at age 45 with credit for 23 years of service. She elected coverage under the Clancy law. Her accumulated contributions amount to $24,000. The special pension reserve in her case is $800. Her average salary is $9,000. How much is her maximum retirement allowance?

Since Mrs. N was appointed after July 1947, it is necessary to use the less favorable figures on the right in Table 19 in order to determine both her annuity and her special pension. The figure given in the table for a woman of 45 is .0627. This is the multiplier used for calculating both the annuity and the special pension for Mrs. N.

Hence, Mrs. N's annuity is $24,000 x .0627, or $1,504 per year. Since she is under the Clancy law she is entitled to a normal pension of 1% of her average salary for each of her 23 years of service. Therefore, her normal pension is 23% of $9,000, or $2,070 per year. The special pension in her case is $800 x .0627, or $50 yearly.

Mrs. N's maximum retirement allowance is the sum of the annuity, normal pension and special pension. The sum of $1,504, $2,070 and $50 is $3,624. Mrs. N receives this sum annually for life if she does not choose an option.

## A WORD OF CAUTION

A question sometimes arises in the case of a sick or disabled teacher who is eligible to retire under the 55-30 law and has neither completed 35 years of service nor reached age 65. The question is this: "Should I retire for service under the 55-30 law or should I cancel* my coverage under that law and retire for disability?"

There are many aspects of this problem which affect individual teachers *in different ways*. It seems unwise to make any statement on this subject here which, although helpful to some teachers, may be harmful to others.

* A teacher who has been covered by the 55-30 law for a period of one year or longer may cancel such coverage by filing the appropriate form at the Retirement Office. He will thereafter be eligible for regular service retirement only after completing 35 years of service or after reaching age 65.

*It is suggested that those who contemplate disability retirement after they become eligible for retirement under the 55-30 law consult the Retirement Office or a recognized pension authority who is conversant with related income tax matters.*

Options on disability retirement will be treated in the next three chapters.

CHAPTER 15

# OPTION I—DISABILITY RETIREMENT

A TEACHER may retire for disability without choosing an option for his beneficiaries. This is known as retirement on MAXIMUM. If he desires to make provision for his beneficiaries, he chooses an option. In this case, his own allowance is reduced in order to pay for the benefits provided for his beneficiaries.

The options available to a teacher who retires for service (explained in chapters 6-13) are also available to the teacher who retires for disability. This chapter will describe Option I in connection with disability retirement.

Option I always involves a *guarantee* of the teacher's *annuity reserve* or of the city's *pension reserve* or of *both reserves*.

When the teacher wants to GUARANTEE only his own contributions (with interest), he chooses Option I on the ANNUITY only.

When the teacher wants to guarantee only the city's contributions (the PENSION RESERVE), he chooses Option I on the PENSION only.

When the teacher wants to guarantee both his own contributions and the city's contributions, then he chooses Option I. The expression, "OPTION I," without any limitation, refers to the guarantee of *both* the annuity reserve and the pension reserve.

*Example*: Teacher T is informed that if he chooses no option his annual allowance will be $5,000. He is also informed that under Option I, he will receive $3,800 yearly and that the guaranteed amount will consist of his *annuity reserve* of $20,000 and of the *pension reserve* of $22,000—a total guarantee of $42,000.

If T retires under Option I and if he dies before he has received the guaranteed amount of $42,000, then the balance will be paid to his beneficiaries. If T should die eight years after his retirement, he will have received 8 x $3,800, or $30,400. Since the guarantee is for $42,000, the beneficiaries will receive the difference between $42,000 and $30,400—that is, $11,600.

*Note:* No matter how long T lives, he will continue to receive $3,800 annually.

We shall now explain how to determine the reduced retirement allowance when a teacher retires for DISABILITY and chooses Option I. We shall later show how to calculate the Guaranteed Amount which is the Initial Insurance under this option.

## REDUCED ALLOWANCE UNDER OPTION I

In order to obtain the reduced allowance upon retirement under an option, it is first necessary to calculate the maximum annuity and maximum pension. The teacher then multiplies the maximum annuity by the appropriate Option I factor on the annuity part, and the

TABLE 20

### OPTION I FACTOR

Disability Retirement

Section A: Applicable to teachers appointed before July 1947, except those eligible for service retirement.

| | MALE TEACHER | | FEMALE TEACHER | | |
|---|---|---|---|---|---|
| Age | Annuity | Pension | Annuity | Pension | Age |
| 40 | .7631 | .7923 | .7803 | .8071 | 40 |
| 41 | .7639 | .7933 | .7818 | .8085 | 41 |
| 42 | .7640 | .7936 | .7821 | .8092 | 42 |
| 43 | .7637 | .7935 | .7820 | .8091 | 43 |
| 44 | .7628 | .7929 | .7812 | .8087 | 44 |
| 45 | .7617 | .7920 | .7800 | .8080 | 45 |
| 46 | .7603 | .7909 | .7784 | .8068 | 46 |
| 47 | .7585 | .7897 | .7768 | .8054 | 47 |
| 48 | .7568 | .7881 | .7749 | .8038 | 48 |
| 49 | .7546 | .7865 | .7727 | .8021 | 49 |
| 50 | .7523 | .7846 | .7703 | .8001 | 50 |
| 51 | .7500 | .7828 | .7677 | .7982 | 51 |
| 52 | .7471 | .7805 | .7651 | .7960 | 52 |
| 53 | .7443 | .7783 | .7620 | .7936 | 53 |
| 54 | .7413 | .7758 | .7589 | .7911 | 54 |
| 55 | .7380 | .7731 | .7555 | .7884 | 55 |
| 56 | .7346 | .7703 | .7519 | .7854 | 56 |
| 57 | .7307 | .7673 | .7480 | .7822 | 57 |
| 58 | .7267 | .7639 | .7439 | .7789 | 58 |
| 59 | .7225 | .7604 | .7395 | .7755 | 59 |
| 60 | .7180 | .7568 | .7349 | .7715 | 60 |
| 61 | .7130 | .7528 | .7300 | .7674 | 61 |
| 62 | .7079 | .7484 | .7248 | .7633 | 62 |
| 63 | .7026 | .7439 | .7192 | .7584 | 63 |
| 64 | .6969 | .7393 | .7134 | .7537 | 64 |
| 65* | .6908 | .7343 | .7075 | .7486 | 65* |

* Figures for age 65 are given for those retiring for disability over 64½ who have not reached age 65.

TABLE 20

## OPTION I FACTOR

### Disability Retirement

**Section B:** Applicable to teachers appointed after June 1947, except those eligible for service retirement.

| Age | MALE TEACHER Annuity | MALE TEACHER Pension | FEMALE TEACHER Annuity | FEMALE TEACHER Pension | Age |
|---|---|---|---|---|---|
| 40 | .7358 | .7697 | .7554 | .7886 | 40 |
| 41 | .7365 | .7707 | .7566 | .7879 | 41 |
| 42 | .7365 | .7709 | .7569 | .7885 | 42 |
| 43 | .7360 | .7707 | .7564 | .7884 | 43 |
| 44 | .7350 | .7700 | .7555 | .7879 | 44 |
| 45 | .7336 | .7690 | .7541 | .7868 | 45 |
| 46 | .7320 | .7678 | .7523 | .7855 | 46 |
| 47 | .7301 | .7663 | .7503 | .7841 | 47 |
| 48 | .7279 | .7647 | .7482 | .7824 | 48 |
| 49 | .7257 | .7631 | .7456 | .7803 | 49 |
| 50 | .7231 | .7610 | .7430 | .7783 | 50 |
| 51 | .7204 | .7589 | .7401 | .7760 | 51 |
| 52 | .7174 | .7565 | .7371 | .7737 | 52 |
| 53 | .7143 | .7542 | .7337 | .7709 | 53 |
| 54 | .7109 | .7513 | .7302 | .7680 | 54 |
| 55 | .7072 | .7484 | .7264 | .7652 | 55 |

maximum pension* by the Option I factor on the pension part of the retirement allowance. The Option I factors are given in Table 20 (Sections A and B).

It should be noted that:

1. The Option I factor on the annuity part is smaller than the Option I factor on the pension part in every case of disability retirement. (In service retirement, the Option I factor is the same for both parts of the retirement allowance.)

2. Comparing Table 20 with Table 4, which gives the Option I factors on retirement for service, it is apparent that the reduction of the retirement allowance of a woman retiring for disability under Option I is considerably greater than the reduction of the corresponding retirement allowance of a woman retiring for service. The difference in the reduction of the retirement allowance of a man retiring for disability and for service is not so marked.

3. Comparing Sections A and B of Table 20, we observe that the Option I factors for three percent contributors (those appointed

* The maximum pension consists of the sum of the normal pension (from normal contributions by the city) and the special pension (from the 5% contributions by the city to give the teacher increased take-home pay).

after June 1947) are less favorable than those for four percent contributors (those appointed before July 1947). If the law should be amended to increase the rate of interest on the contributions of teachers appointed after June 1947 to four percent, Section B of Table 20 will no longer be used. Section A will then apply to all teachers.

*Example of Reduced Allowance under Option I*: Mr. M, age 50, appointed in 1938, is entitled to a disability retirement allowance of $4,300 per year if he retires on maximum allowance. His annuity is $1,800, his normal pension $2,400 and his special pension $100 per year. If he chooses Option I, what will his reduced retirement allowance amount to?

Since Mr. M was appointed before July 1947, we must use the Option I factors in Section A of Table 20. For a man of 50 the Option I factors are .7523 for the annuity and .7846 for the pension. Hence, Mr. M's reduced annuity under Option I will be $1,800 x .7523, or $1,354 per year.

His maximum pension is the sum of his normal pension ($2,400) and his special pension ($100). Hence, his total maximum pension amounts to $2,500 annually. Accordingly, his reduced pension under Option I will be $2,500 x .7846, or $1,961 annually. His total retirement allowance under Option I will be the sum of $1,354 and $1,961, or $3,315 per year for life.

## INITIAL INSURANCE OR GUARANTEED AMOUNT

The annuity reserve and the pension reserve constitute the *Total Reserve* or *Initial Insurance* under Option I. The annuity reserve consists of the sums contributed by the teacher with interest. The pension reserve consists of two parts, the normal pension reserve and the special pension reserve.

The normal pension reserve is obtained by multiplying the teacher's maximum normal pension by the appropriate multiplier given in Table 21 below.

The special pension reserve consists of the additional contributions (with interest) made by the city for the teacher since July 1, 1960. The special pension reserve for all classroom teachers on maximum salary since July 1960 who will retire before 1971 can be obtained from Table 3 or can be estimated from the figures given in that table.

Combining the normal pension reserve and the special pension reserve we obtain the total *pension reserve*. The *initial insurance* is the sum of the total *pension reserve* and the *annuity reserve*.

*Example*: Let us turn to the case of Mrs. N given on page 77. The facts in her case are as follows: Appointed in September 1947. Retires for disability at age 45. Accumulated contributions $24,000. Special pension reserve $800. Total service 23 years. Average salary $9,000. Elected Clancy coverage.

Based on these facts, we calculated her maximum disability retirement allowance to be $3,624. This consisted of an annuity of $1,504, a normal pension of $2,070, and a special pension of $50 per year.

TABLE 21

## MULTIPLIER FOR FINDING NORMAL PENSION RESERVE UNDER OPTION I

### Disability Retirement

Applicable to all teachers except those eligible for service retirement

| Age | Teacher Appointed Before July 1947 Man | Teacher Appointed Before July 1947 Woman | Teacher Appointed After June 1947 Man | Teacher Appointed After June 1947 Woman | Age |
|---|---|---|---|---|---|
| 38 | 12.854 | 13.530 | 14.530 | 15.382 | 38 |
| 39 | 12.808 | 13.498 | 14.455 | 15.320 | 39 |
| 40 | 12.737 | 13.436 | 14.353 | 15.225 | 40 |
| 41 | 12.647 | 13.349 | 14.228 | 15.101 | 41 |
| 42 | 12.541 | 13.242 | 14.084 | 14.952 | 42 |
| 43 | 12.421 | 13.120 | 13.925 | 14.785 | 43 |
| 44 | 12.290 | 12.981 | 13.753 | 14.603 | 44 |
| 45 | 12.151 | 12.834 | 13.572 | 14.409 | 45 |
| 46 | 12.003 | 12.677 | 13.383 | 14.205 | 46 |
| 47 | 11.848 | 12.512 | 13.186 | 13.995 | 47 |
| 48 | 11.688 | 12.342 | 12.982 | 13.776 | 48 |
| 49 | 11.522 | 12.166 | 12.774 | 13.552 | 49 |
| 50 | 11.350 | 11.983 | 12.559 | 13.321 | 50 |
| 51 | 11.174 | 11.796 | 12.340 | 13.087 | 51 |
| 52 | 10.991 | 11.603 | 12.114 | 12.845 | 52 |
| 53 | 10.804 | 11.405 | 11.883 | 12.600 | 53 |
| 54 | 10.612 | 11.202 | 11.648 | 12.349 | 54 |
| 55 | 10.414 | 10.993 | 11.408 | 12.093 | 55 |
| 56 | 10.212 | 10.780 | 11.163 | 11.833 | 56 |
| 57 | 10.005 | 10.561 | | | |
| 58 | 9.793 | 10.338 | | | |
| 59 | 9.577 | 10.111 | | | |
| 60 | 9.356 | 9.880 | | | |
| 61 | 9.113 | 9.644 | | | |
| 62 | 8.903 | 9.405 | | | |
| 63 | 8.673 | 9.162 | | | |
| 64 | 8.438 | 8.916 | | | |
| 65* | 8.201 | 8.668 | | | |

* Figures for age 65 are given for those retiring for disability over 64½ who have not reached age 65.

If she chooses Option I, (a) what will Mrs. N receive per year, and (b) what is the amount of her initial insurance?

(a) In order to obtain Mrs. N's reduced retirement allowance under Option I we must turn to Table 20. Since she was appointed after June 1947, we must use the Option I factors in Section B of the table. For a woman of 45 the Option I factors are .7541 for the annuity and .7868 for the pension. Mrs. N's maximum annuity is $1,504. Hence, her reduced annuity under Option I will be $1,504 x .7541, or $1,134 per year.

Her maximum pension is the sum of her normal pension, $2,070, and her special pension of $50 a year. Hence, her maximum pension amounts to $2,120. Accordingly, her reduced pension under Option I will be $2,120 x .7868, or $1,668 annually. Mrs. N's total retirement allowance under Option I will be the sum of $1,134 and $1,668, or $2,802 per year for life.

(b) To find the initial insurance, we first use Table 21 to determine the normal pension reserve under Option I. In the column for teachers appointed after June 1947 will be found the normal pension multiplier, 14.409, for a woman of 45. Mrs. N's maximum normal pension is $2,070. The product of $2,070 and 14.409, namely, $29,826, is her normal pension reserve.

Mrs. N's special pension reserve is given as $800. Her annuity reserve consists of her accumulated contributions, $24,000.

The initial insurance is the sum of the normal pension reserve, the special pension reserve and the annuity reserve. The sum of $29,826, $800 and $24,000 is $54,626. This is the Initial Insurance or Guaranteed Amount under Option I.

Each year the insurance will be reduced by $2,802, the annual retirement allowance of Mrs. N. If she should live exactly ten years after her retirement, she will have received 10 x $2,802, or $28,020. The beneficiary or estate will then receive a lump sum equal to the difference between $54,626 and $28,020, namely, $26,606.

## OPTION I—BENEFIT TO BENEFICIARY PAID AS AN ANNUITY

As explained in Chapter 8, the Retirement law now allows a teacher who retires under Option I to elect to have the balance in the reserve under this option paid to the beneficiary either as a lump sum or in the form of a monthly annuity for life. Furthermore, if the teacher has named a beneficiary to receive the benefits under Option I, but has not elected to have the balance of the Guaranteed Reserve paid in the form of an annuity, the beneficiary, upon the death of the retired teacher, may elect to do so. If, however, the balance in the reserve at the time of death of the teacher is less than $10,000, payment to the beneficiary will be made only in the form of a lump sum.

Table 24 on page 100, which gives the multiplier for converting a lump sum into an annuity under Option A, is also used to calculate the annuity to the beneficiary under Option I. (See Chapter 18.) The balance in the reserve available to the beneficiary at the time of death of the teacher is multiplied by the appropriate Option A factor given in the table. The result is the annual annuity payable to the beneficiary for life.

*Example*: Consider once more the case of Mrs. N. Let us assume that, upon her retirement for disability, she had named her sister, who was three years older than Mrs. N, as beneficiary to receive the benefit under Option I in the form of an annuity for life. Mrs. N died ten years after retirement, leaving a balance of $26,606 in the reserve under Option I. When Mrs. N died her sister was 58 years old. What was the amount of the sister's annuity?

In consulting Table 24, we must use the column of figures applicable to the beneficiary of a teacher who was appointed after June 1947 because Mrs. N was appointed in September of that year. These figures are less favorable to the beneficiary than the corresponding figures for beneficiaries of teachers who were appointed prior to July 1947.

Table 24 gives .0705 as the Option A factor for a woman of 58 who is the beneficiary of a teacher appointed after June 1947. To calculate the annuity for Mrs. N's sister, we multiply the balance of the guaranteed reserve of $26,606 by the decimal .0705. Hence the sister of Mrs. N will receive an annuity of .0705 x $26,606, that is, $1,875 annually for life.

## OPTION I ON ANNUITY ONLY

We have been discussing Option I on the full retirement allowance—on both the pension and the annuity. However, a teacher may choose Option I on one part of the retirement allowance—either on the pension part or on the annuity part. Here is an illustration of Option I on the ANNUITY only.

Miss C was appointed in 1940 and retires for disability at age 52. She is informed that, on maximum retirement, she would receive a pension of $2,000 and an annuity of $1,500. Her annuity reserve (her contributions with interest) is $19,255. She chooses to retire under Option I on the ANNUITY only. She wants to insure her own annuity fund. Her maximum annuity will now be reduced.

To find the reduced annuity we turn to Table 20, Section A. In the Annuity column under Female Teacher and corresponding to age 52, we see the decimal .7651. The maximum annuity of $1,500 given above is multiplied by .7651. The product, $1,148, indicates the reduced annuity. To this we add the pension of $2,000. Hence, C's retirement allowance will now be $1,148 plus $2,000, or $3,148 yearly for C's life.

The total insurance of $19,255 is reduced each year by $1,148—that is, by the yearly annuity that C receives. If C lives only 5 years after retirement, she will have received from the ANNUITY fund 5 times $1,148 or $5,740. Since the total annuity reserve was $19,255, the beneficiary would receive the difference between $19,255 and $5,740—that is, $13,515.

## HAVE YOU FILED AN OPTION I BLANK?

The filing of an Option I blank is important for most teachers. It is especially important for those teachers who have completed 30 years' service or who have reached age 65. The protection to the beneficiaries of these teachers through Option I will be explained in Chapter 19, which deals with the "Death Gamble" law.

The filing of Option I is equally important for a teacher who has completed ten years of "city" service and who has close relatives who are financially dependent on him. Option I is essential where the teacher unfortunately becomes seriously ill and is eligible to retire for disability—but is not yet eligible to retire for service.

An illustration will help explain this. Mr. R, after teaching 20 years became fatally ill. He was eligible for disability retirement; however, he was too ill to apply for retirement. In the case of disability, the wife or another close relative may file the application for retirement. R's wife, W, filed an application for her husband's retirement at the office of the Teachers' Retirement System on March 1, 1963.

Retirement for disability does not go into effect unless the teacher lives more than 30 days after the application has been filed. R died on April 5—35 days after the application was filed. Fortunately for the widow, R had filed an Option I blank in which he named his wife as beneficiary. This had been done before he became ill. When he became seriously ill, he was incapable of signing any papers. *No one may file an option on a teacher's behalf*—not even his wife.

What was the amount of the benefit that W received? She received (a) the teacher's contributions (with interest) which amounted to $17,000 and (b) the city's pension reserve of $23,000. The total in this case was $40,000.

If R had not been retired, then the benefit to the widow would have been (a) his own contributions (with interest), $17,000 as above, and (b) $10,000 as the city's benefit—a total of $27,000.

## CHAPTER 16

# OPTIONS II AND III—DISABILITY RETIREMENT

WHEN A TEACHER retires under Option II or Option III, he purchases an annuity for a designated beneficiary. Should the beneficiary predecease the retired teacher, no one will obtain any benefit from either of these options; all retirement payments will cease with the teacher's death.

Under Option II, upon the death of the teacher, the beneficiary, if he survives, receives each month for life an amount equal to the teacher's monthly annuity, or pension, or both. Under Option III, the beneficiary receives one-half of the teacher's monthly annuity, or pension, or both. The teacher, at the time of retirement, may elect Option II or Option III for the pension only, or for the annuity only, or for the entire retirement allowance, that is, for both pension and annuity.

### REDUCED ALLOWANCE UNDER OPTIONS II AND III

When Option II or III is chosen, the maximum allowance (pension, annuity or both) is multiplied by an option factor in order to obtain the teacher's reduced allowance. This factor depends upon the option selected, the age and sex of the teacher, and the age and sex of the beneficiary. Since the beneficiary under Option III, if he survives, receives each month one-half of the monthly amount received by the retired teacher, while the beneficiary under Option II receives the same monthly amount as that of the retired teacher prior to his death, the maximum allowance of the teacher will not be reduced as much under Option III as under Option II.

These two options are not frequently chosen by teachers retiring for disability. Hence, extensive tables of Options II and III factors on disability retirement have not been prepared. A limited number of such factors are given in Table 22 below.

TABLE 22

## SEVERAL OPTION II AND III FACTORS
## DISABILITY RETIREMENT

Section A: Applicable to teachers appointed before July 1, 1947
(Explanation: M50 F45 means a male teacher, age 50 at retirement, with a female beneficiary, age 45)

| Teacher and Beneficiary | Option II Factor | Option III Factor | Teacher and Beneficiary |
|---|---|---|---|
| M48 F43 | .6748 | .8058 | M48 F43 |
| M50 F45 | .6727 | .8043 | M50 F45 |
| M50 F49 | .6996 | .8233 | M50 F49 |
| M54 F52 | .6904 | .8168 | M54 F52 |
| M55 F55 | .7064 | .8279 | M55 F55 |
| M55 F58 | .7325 | .8456 | M55 F58 |
| M56 F29 | .5391 | .7005 | M56 F29 |
| M62 F58 | .6624 | .7969 | M62 F58 |
| M64 F61 | .6692 | .8018 | M64 F61 |
| | | | |
| F46 M51 | .7945 | .8855 | F46 M51 |
| F50 M55 | .8006 | .8893 | F50 M55 |
| F53 M48 | .7380 | .8492 | F53 M48 |
| F57 M20 | .5601 | .7180 | F57 M20 |
| F60 M58 | .7493 | .8567 | F60 M58 |
| | | | |
| F50 F49 | .7275 | .8423 | F50 F49 |
| F53 F60 | .7889 | .8820 | F53 F60 |
| F55 F35 | .6017 | .7513 | F55 F35 |
| F60 F57 | .7019 | .8248 | F60 F57 |
| | | | |
| M45 M15 | .6173 | .7634 | M45 M15 |

*Example:* Mrs. R, who was appointed in 1937, retires for disability at age 50. She named her husband, age 55, as beneficiary under Option II. If her maximum annual retirement allowance is $3,800, how much will she receive under this option? How much will she receive if she chooses Option III?

The Option II factor for a woman appointed before July 1947, who retires for disability at age 50, naming a man, age 55, as beneficiary, is .8006. Multiply $3,800 by .8006. The product, $3,042, is the amount that Mrs. R will receive each year for life under this option. Upon her death, Mr. R, if alive, will continue to receive $3,042 annually as long as he lives.

The Option III factor for a woman appointed before July 1947, who retires for disability at age 50, naming a man, age 55, as beneficiary, is .8893. Hence, the annual retirement allowance of Mrs. R will be $3,800 x .8893, or about $3,379. Upon her death, her husband will receive one-half of this sum, or approximately $1,689, each year for life.

TABLE 22

## SEVERAL OPTION II AND III FACTORS DISABILITY RETIREMENT

Section B: Applicable to teachers appointed after June 30, 1947
(Explanation: M45 F40 means a male teacher, age 45 at retirement, with a female beneficiary, age 40)

| Teacher and Beneficiary | Option II Factor | Option III Factor | Teacher and Beneficiary |
|---|---|---|---|
| M40 F38 | .6705 | .8028 | M40 F38 |
| M45 F40 | .6577 | .7935 | M45 F40 |
| M50 F46 | .6624 | .7969 | M50 F46 |
| M50 F49 | .6858 | .8136 | M50 F49 |
| M50 F50 | .6939 | .8193 | M50 F50 |
| M53 F53 | .6947 | .8198 | M53 F53 |
| M55 F50 | .6498 | .7877 | M55 F50 |
| M60 F57 | .6629 | .7973 | M60 F57 |
| F50 M48 | .7435 | .8529 | F50 M48 |
| F50 M53 | .7814 | .8773 | F50 M53 |
| F55 M60 | .8046 | .8917 | F55 M60 |
| F45 F40 | .6892 | .8160 | F45 F40 |
| F50 F57 | .7784 | .8754 | F50 F57 |
| F64 F63 | .7080 | .8290 | F64 F63 |
| M55 M50 | .6901 | .8166 | M55 M50 |

*Example*: Mr. T, who was appointed in 1948, retires for disability at age 50. He named his wife, age 49, as beneficiary under Option II. If his maximum retirement allowance is $3,500, how much will he receive under the option?

The Option II factor for a man, appointed after June 1947, who retires for disability at age 50, naming a woman age 49, as beneficiary, is .6858. Multiply the maximum retirement allowance, $3,500, by .6858. The product is $2,400. Mr. T will receive this amount annually as long as he lives. Upon his death, his wife, if she survives, will continue to receive $2,400 yearly for life.

### OPTION IV-a

Option IV-a is similar to Options II and III in that it provides a life annuity for a designated beneficiary when the retired teacher dies. The annuity received by the beneficiary is one-fourth, or some other fraction approved by the Retirement Board, of the teacher's annuity, or pension, or retirement allowance. This option is rarely selected by teachers retiring for disability.

## CHAPTER 17

# OPTION IV-b—DISABILITY RETIREMENT

OPTION IV-b provides that a specified lump sum* shall be paid to the designated beneficiary (or to the estate) of a retired teacher upon the latter's death. Also, since January 1, 1962, a teacher retiring under Option IV-b may, under certain conditions, elect to have the specified lump sum paid to ONE beneficiary in the form of an annuity.

As in the case of other retirement options, the selection of Option IV-b results in a reduction in the teacher's maximum retirement allowance.

### REDUCED ALLOWANCE UNDER OPTION IV-b

Table 23 will enable a teacher to calculate his reduced retirement allowance if he retires for disability under Option IV-b.

The teacher first finds the cost per $1,000 under the option in the appropriate column of Table 23 on the line corresponding to his age at retirement. He then multiplies this figure by 2 if he wishes to reserve a lump sum of $2,000 under this option for his beneficiary; by 3 for $3,000; etc. The teacher subtracts this cost from his maximum retirement allowance. The result is his reduced retirement allowance under Option IV-b for the lump sum selected.

*Example 1*: Miss L was appointed in 1932. She retires for disability at age 51. Her maximum retirement allowance is $4,300. She chooses Option IV-b, making her brother the beneficiary to receive $5,000 upon her death. How much will Miss L receive during her lifetime?

The cost per $1,000 under Option IV-b is given in Table 23. This table shows that the cost to a woman of 51, retiring for disability, who was appointed before July 1947, is $37.34 for each

* The lump sum may not exceed the amount of the teacher's accumulated contributions.

$1,000 reserved for her beneficiary under this option. Hence, $5,000 will cost 5 x $37.34, or about $187. This is the amount that will be subtracted from Miss L's maximum retirement allowance. Her maximum retirement allowance of $4,300 will be reduced by $187. Miss L will then receive $4,113 yearly for life. Upon her death, her brother, if he survives her, will receive $5,000 in cash. If the brother predeceases Miss L, and no other beneficiary is named, the lump sum of $5,000 will be paid to Miss L's estate.

*Example 2:* Mr. J, who was appointed in 1948, retires for disability at age 54. He selected option IV-b, naming his daughter

TABLE 23

## ANNUAL COST PER $1,000 CASH PAYMENT UNDER OPTION IV-b

### Disability Retirement

Applicable to all teachers except those eligible for service retirement

| | Teacher Appointed Before July 1947 | | Teacher Appointed After June 1947 | | |
|---|---|---|---|---|---|
| Age | Man | Woman | Man | Woman | Age |
| 38 | 31.01 | 27.48 | 32.56 | 29.10 | 38 |
| 39 | 31.27 | 27.64 | 32.88 | 29.34 | 39 |
| 40 | 31.66 | 27.95 | 33.33 | 29.72 | 40 |
| 41 | 32.16 | 28.39 | 33.89 | 30.20 | 41 |
| 42 | 32.77 | 28.94 | 34.54 | 30.80 | 42 |
| 43 | 33.47 | 29.58 | 35.27 | 31.49 | 43 |
| 44 | 34.25 | 30.31 | 36.08 | 32.25 | 44 |
| 45 | 35.09 | 31.12 | 36.97 | 33.09 | 45 |
| 46 | 36.02 | 31.99 | 37.91 | 33.99 | 46 |
| 47 | 37.00 | 32.94 | 38.92 | 34.96 | 47 |
| 48 | 38.05 | 33.94 | 40.00 | 35.98 | 48 |
| 49 | 39.17 | 35.00 | 41.14 | 37.06 | 49 |
| 50 | 40.36 | 36.14 | 42.35 | 38.22 | 50 |
| 51 | 41.63 | 37.34 | 43.64 | 39.44 | 51 |
| 52 | 42.98 | 38.62 | 45.01 | 40.75 | 52 |
| 53 | 44.41 | 39.97 | 46.46 | 42.12 | 53 |
| 54 | 45.93 | 41.42 | 48.00 | 43.59 | 54 |
| 55 | 47.55 | 42.96 | 49.65 | 45.14 | 55 |
| 56 | 49.28 | 44.60 | 51.39 | 46.79 | 56 |
| 57 | 51.13 | 46.34 | | | |
| 58 | 53.10 | 48.20 | | | |
| 59 | 55.19 | 50.17 | | | |
| 60 | 57.43 | 52.28 | | | |
| 61 | 60.02 | 54.53 | | | |
| 62 | 62.38 | 56.93 | | | |
| 63 | 65.09 | 59.49 | | | |
| 64 | 68.01 | 62.23 | | | |
| 65* | 71.13 | 65.16 | | | |

* Figures for age 65 are given for those retiring for disability over 64½ who have not reached age 65.

as beneficiary to receive a lump sum of $4,000. If his maximum retirement allowance is $4,200, what will Mr. J's reduced allowance be under the option?

Mr. J. was appointed in 1948. Hence, in using Table 23, we must use the column which applies to teachers appointed after June 1947. For a man of 54, the figure shown in the table is $48.00. This means that the cost to Mr. J of reserving $4,000 under Option IV-b is 4 x $48.00 per year. Hence, $192 will be subtracted from Mr. J's maximum retirement allowance of $4,200 to give him a reduced allowance of $4,008 per year. Upon his death, his daughter (or any other designated beneficiary) will receive a lump sum of $4,000.

## OPTION IV-b—BENEFIT PAID AS AN ANNUITY

In the first paragraph of this chapter we stated that a teacher retiring under Option IV-b may, under certain conditions, elect to have the specified lump sum paid to ONE beneficiary in the form of an annuity. (The reader is referred to Chapter 12 for a discussion of the conditions under which the teacher may exercise this right.)

As in the case of Option I, the table to be used in calculating the annuity to the beneficiary under Option IV-b is the same table (Table 24 on page 100) as that used to calculate the annuity payable to the beneficiary under Option A. The lump sum* specified in Option IV-b is multiplied by the appropriate Option A factor given in Table 24. The result is the beneficiary's annuity for life.

*Example*: Mr. S, appointed in 1928, retires for disability at age 59 before he is eligible to retire for service. He named his sister as beneficiary under Option IV-b for $10,000. He specified that, upon his death, his sister is to receive the benefit in the form of an annuity for life. His maximum retirement allowance is $5,600. What is the reduced retirement allowance of Mr. S? If Mr. S should die after retirement when his sister is 70 years old, how large will her annual annuity be?

First, we shall determine the cost to Mr. S of selecting Option IV-b for $10,000. Using Table 23, we find that for a man of 59, appointed before July 1947, the cost of $1,000 lump sum under Option IV-b is $55.19 per year. Hence, the cost of $10,000 is 10 x $55.19, or about $552 per year. Mr. S will receive $5,600 less $552, or $5,048 each year for life.

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* The benefit under this option may be paid in the form of an annuity only if the specified lump sum is not less than $10,000.

When Mr. S dies, his sister is 70 years old. Her annuity will be calculated by using Table 24. According to this table, for a woman of 70, who is the beneficiary under Option IV-b of a teacher appointed before July 1947, the multiplier to be used is .1120. Since the sum under Option IV-b was $10,000, the sister will receive $10,000 x .1120, or $1,120 per year for life.

If Mr. S survived his sister, he could elect to have the benefit under Option IV-b paid to another person but, under present regulations, it can be paid only in the form of a lump sum; if he failed to name a new beneficiary after his sister's death, the lump sum will be paid to his estate.

### OPTION IV-c

Because of the limited protection it gives the beneficiary, Option IV-c is not recommended in the case of retirement for disability.

CHAPTER 18

# THE DEATH BENEFIT

THE PRECEDING chapters explain how to determine the retirement income of a teacher who retires for service or disability under the various retirement plans available to him. They also show how to calculate the amount payable to the surviving beneficiaries (or the teacher's estate) upon the death of the retired teacher. We shall now turn our attention to the benefits payable to the survivors of a teacher who dies while he is still in service.

The benefits payable to the beneficiaries of a teacher who dies before he is *eligible for service retirement* are, in almost every case, less than the benefits paid if the teacher dies after he has reached eligibility for service retirement. This chapter will confine itself to the amounts payable to the beneficiaries (or estate) in the event of the teacher's death before he has become eligible to retire for service. The next chapter will be devoted to the benefits payable in the event that the teacher in service dies after he becomes eligible to retire.*

## THE DEATH BENEFIT—TEACHER NOT ELIGIBLE TO RETIRE

First, let us recall the conditions under which a teacher is eligible for regular service retirement.

(1) A teacher who elected coverage under the 55-30 law, is eligible to retire for service if he has reached age 55 AND has completed 30 years of service, or

(2) A teacher is eligible to retire for service after 35 years of service, or

* Prior to April 24, 1961, when the "death gamble" law became effective, the death benefits described in this chapter applied to all teachers in service, whether or not they were eligible for service retirement.

(3) A teacher is eligible to retire at age 65.

In addition, a teacher is eligible for service retirement "on demand" after he has completed 30 years of service, even if his age is below 55.

If a teacher dies before he is eligible for service retirement, his beneficiary will receive two separate sums. (1) the *teacher's contributions with interest* to date of death, and (2) a *death benefit* from funds furnished by the city.

The death benefit furnished by the city consists of two separate amounts: (a) the *normal death benefit* which will be explained below, and (b) the additional contributions made by the city since July 1960—at the rate of 2½% and later 5% of the teacher's salary. The accumulated amount of these additional contributions is identical with the "reserve-for-increased-take-home-pay," described in Chapter 4 which we called the "special pension reserve."* The beneficiary or the estate of every teacher who dies before retirement will receive from the city the *special pension reserve* in addition to the *normal death benefit*.

## NORMAL DEATH BENEFIT

### I For Teachers Appointed After April 10, 1929

(a) *Minimum Normal Death Benefit*: For a teacher who completed from six months to 10 years of city service, the normal death benefit is one-half of the average annual salary during the 5 years immediately preceding the date of the teacher's death.

*Example*: Miss A was appointed in September 1953 with no prior service. She served continuously until she died in September 1961. If her average salary for the 5 years immediately preceding her death was $7,000, what was the amount of the death benefit?

Since Miss A completed less than 10 years of city service, the normal death benefit in her case was one-half of her average salary of $7,000. Hence, the beneficiary received a normal death benefit of $3,500. To this normal death benefit was added a special pension reserve of $270. The total death benefit was $3,770. The beneficiary

* The *special pension reserve* for a classroom teacher who has been on maximum salary for five years prior to his death is given in Table 3. This table may be used, in the case of a teacher who dies before 1971, provided that teacher was on maximum salary for five years prior to his death. For other teachers, a separate calculation must be made: Use 2½% of the salary in 1960-1961, and 5% thereafter, adding interest at the rate of 4% per year for teachers appointed before July 1, 1947, and 3% for those appointed on or after that date.

received this amount in *addition* to the teacher's accumulated contributions.

(b) *Maximum Normal Death Benefit*: For a teacher with more than 10 years of city service the normal death benefit is 5%* of the average salary for each year of city service for a maximum of 20 years.

*Example 1*: Mr. B was appointed in September 1950 with credit for 3 years of prior service as a substitute teacher. He served continuously until his death in September 1959. His average salary was $8,000. How large was the death benefit?

B had 3 years of city service as a substitute plus 9 years as a regular teacher, making a total of 12 years of city service. The normal death benefit is 5% of the average salary multiplied by 12, the number of years of city service. Hence, the normal death benefit equals 60% of $8,000, or $4,800.

Since Mr. B died before July 1960 when the city began paying a part of the teacher's contributions for him, there was no special pension reserve in his case. The death benefit consisted of the normal death benefit only. The beneficiary received $4,800 plus the teacher's contributions with interest.

*Example 2*: Mrs. C was appointed September 1933 with no prior service. She served continuously until her death in January 1962. Her average salary was $8,500. What was the death benefit in this case?

Mrs. C had more than 20 years of service. Hence, her beneficiary (or estate) was entitled to the maximum normal death benefit for a teacher appointed after April 10, 1929, namely, 20 x 5% of the average salary. The normal death benefit, therefore, was 100% of the average salary, $8,500. The total death benefit was $8,500 plus the special pension reserve consisting of the city's additional contributions for Mrs. C from July 1960 to January 1962.

### II For Teachers Appointed Before April 10, 1929

For a teacher who was appointed *before* April 10, 1929, the normal death benefit is 6% of the average salary for each year of city service prior to April 10, 1929, plus 5% for each year of service

* If a teacher, appointed after April 10, 1929, received credit for service as a substitute teacher or in another city department prior to April 10, 1929, the normal death benefit is 6% of the average salary for each year of city service prior to April 10, 1929, plus 5% for each year of service after April 10, 1929. However, not more than 20 years may be counted in the total service.

after April 10, 1929. However, not more than 35 years may be counted in the total service.

*Example:* Mrs. D was appointed in April 1928 with credit for 1 year of prior service as a substitute teacher. She died while in service in April 1961. She served continuously, except for leaves of absence without pay amounting to 5 years. Her average salary was $8,000. The special pension reserve in her case amounted to $180. What was the death benefit?

Mrs. D had 2 years of city service prior to April 1929 for which her beneficiary was entitled to receive 2 x 6% of $8,000, or 12% of $8,000. Her service after April 1929 amounted to 27 years. For these 27 years, the beneficiary was entitled to 27 x 5% of $8,000, or 135% of $8,000. The normal death benefit was 12% plus 135%, or 147% of $8,000; this amounts to $11,760. To this normal death benefit was added the special pension reserve of $180. Thus, the total death benefit was $11,940. The beneficiary received this amount in addition to the teacher's contributions with interest.

## DESIGNATION OF BENEFICIARY

Every newly appointed teacher files at the Retirement Office a designation of beneficiary to receive the *death benefit* described above and the teacher's *accumulated contributions*. The same beneficiary (or the teacher's estate) may be designated for both sums, or a different beneficiary may be named for each.

Teachers are advised to review their beneficiary designations periodically; if in doubt about who their beneficiaries are, they should file a new designation of beneficiaries. A later designation *always* supersedes an earlier one.

## OPTIONS ON DEATH-IN-SERVICE

A teacher may at any time elect to have his accumulated contributions or death benefit or both paid to his beneficiary in accordance with one of the following options:

OPTION A. This option provides that, in the event of the teacher's death before he is eligible to retire, his contributions with interest or death benefit or both shall be paid in the form of an annuity to the designated beneficiary (or beneficiaries) for life. Upon the death of the beneficiary all payments cease.

OPTION B. Under this option, the beneficiary receives a *lesser annuity than under Option A*. Option B contains the additional provision that, should the beneficiary die before he shall have received the total amount of the accumulated contributions or death benefit or both, the balance shall be paid to another designated beneficiary.

OPTION C. This option provides that the beneficiary shall receive a lesser annuity than under Option A, with the additional provision that, upon the death of the beneficiary, a specified lump sum shall be paid to another beneficiary. (Since the cost of this option is excessive, it is recommended that Option C be not chosen.)

If a teacher has named a beneficiary to receive his accumulated contributions or death benefit or both, but has not selected an option, the beneficiary, upon the death of the teacher, may choose to have the amounts paid to him in accordance with one of the options described above.

Although it is recommended that every teacher designate a beneficiary, it is generally advisable for the teacher not to select an option on his accumulated contributions or death benefit, but to let the beneficiary make the choice.

## CALCULATION OF BENEFIT UNDER OPTION A

Table 24 gives the annuity per dollar of lump sum (accumulated contributions or death benefit or both) payable to the beneficiary under Option A. The amount of the lump sum must be multiplied by the appropriate Option A factor given in the table. The result is the beneficiary's annuity for life beginning on the date of death of the teacher.

Care must be exercised to select the factor in the table corresponding to the beneficiary's age and sex, and to use that part of the table applicable to the beneficiary according to the date of appointment of the teacher—before or after July 1, 1947.

*Example*: Mr. E was appointed in 1928. He died in service before he became eligible to retire. His wife, age 55, was the designated beneficiary. Assume that Mr. E's accumulated contributions amounted to $18,000 and the death benefit was $12,000. What did his wife receive under Option A?

The Option A factor for a woman beneficiary of 55, where the teacher was appointed before July 1, 1947, is .0724. The sum of the accumulated contributions and the death benefit was $30,000. Multiply $30,000 by .0724. The product is $2,172. This was Mrs. E's annuity for life beginning on the date of death of the teacher. All payments cease upon the death of Mrs. E.

TABLE 24

## OPTION A FACTOR
## ANNUITY PER DOLLAR PAYABLE TO BENEFICIARY UNDER OPTION A, OPTION I AND OPTION IV-b

| Age of Beneficiary | Teacher Appt'd Before July 1947 Beneficiary | | Teacher Appt'd After June 1947 Beneficiary | | Age of Beneficiary |
|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | |
| 20 | .0492 | .0481 | .0414 | .0402 | 20 |
| 25 | .0509 | .0495 | .0433 | .0418 | 25 |
| 30 | .0531 | .0513 | .0456 | .0437 | 30 |
| 35 | .0559 | .0536 | .0486 | .0461 | 35 |
| 40 | .0596 | .0566 | .0523 | .0492 | 40 |
| 42 | .0614 | .0580 | .0541 | .0507 | 42 |
| 44 | .0634 | .0596 | .0562 | .0523 | 44 |
| 46 | .0656 | .0614 | .0584 | .0541 | 46 |
| 48 | .0681 | .0634 | .0609 | .0562 | 48 |
| 50 | .0709 | .0656 | .0637 | .0584 | 50 |
| 51 | .0724 | .0668 | .0653 | .0596 | 51 |
| 52 | .0741 | .0681 | .0669 | .0609 | 52 |
| 53 | .0758 | .0695 | .0686 | .0623 | 53 |
| 54 | .0776 | .0709 | .0705 | .0637 | 54 |
| 55 | .0796 | .0724 | .0724 | .0653 | 55 |
| 56 | .0817 | .0741 | .0745 | .0669 | 56 |
| 57 | .0839 | .0758 | .0767 | .0686 | 57 |
| 58 | .0862 | .0776 | .0791 | .0705 | 58 |
| 59 | .0887 | .0796 | .0816 | .0724 | 59 |
| 60 | .0914 | .0817 | .0843 | .0745 | 60 |
| 61 | .0943 | .0839 | .0871 | .0767 | 61 |
| 62 | .0974 | .0862 | .0902 | .0791 | 62 |
| 63 | .1007 | .0887 | .0934 | .0816 | 63 |
| 64 | .1042 | .0914 | .0969 | .0843 | 64 |
| 65 | .1079 | .0943 | .1007 | .0871 | 65 |
| 66 | .1120 | .0974 | .1047 | .0902 | 66 |
| 67 | .1163 | .1007 | .1090 | .0934 | 67 |
| 68 | .1209 | .1042 | .1136 | .0969 | 68 |
| 69 | .1259 | .1079 | .1186 | .1007 | 69 |
| 70 | .1313 | .1120 | .1239 | .1047 | 70 |
| 71 | .1370 | .1163 | .1297 | .1090 | 71 |
| 72 | .1432 | .1209 | .1359 | .1136 | 72 |
| 73 | .1499 | .1259 | .1425 | .1186 | 73 |
| 74 | .1572 | .1313 | .1497 | .1239 | 74 |
| 75 | .1650 | .1370 | .1575 | .1297 | 75 |
| 76 | .1734 | .1432 | .1659 | .1359 | 76 |
| 77 | .1825 | .1499 | .1749 | .1425 | 77 |
| 78 | .1923 | .1572 | .1847 | .1497 | 78 |
| 79 | .2030 | .1650 | .1954 | .1575 | 79 |
| 80 | .2145 | .1734 | .2068 | .1659 | 80 |
| 81 | .2270 | .1825 | .2193 | .1749 | 81 |

TABLE 25

## OPTION B FACTOR
## ANNUITY PER DOLLAR PAYABLE TO BENEFICIARY UNDER OPTION B

| Age of Beneficiary | Teacher Appt'd Before July 1947 Beneficiary | | Teacher Appt'd After June 1947 Beneficiary | | Age of Beneficiary |
|---|---|---|---|---|---|
| | Man | Woman | Man | Woman | |
| 50 | .0576 | .0590 | .0499 | .0513 | 50 |
| 51 | .0586 | .0598 | .0510 | .0521 | 51 |
| 52 | .0598 | .0607 | .0520 | .0530 | 52 |
| 53 | .0610 | .0617 | .0532 | .0539 | 53 |
| 54 | .0622 | .0626 | .0544 | .0548 | 54 |
| 55 | .0636 | .0636 | .0556 | .0559 | 55 |
| 56 | .0650 | .0648 | .0570 | .0569 | 56 |
| 57 | .0665 | .0659 | .0584 | .0580 | 57 |
| 58 | .0679 | .0671 | .0599 | .0592 | 58 |
| 59 | .0695 | .0684 | .0615 | .0603 | 59 |
| 60 | .0713 | .0697 | .0631 | .0616 | 60 |
| 61 | .0731 | .0710 | .0648 | .0629 | 61 |
| 62 | .0750 | .0724 | .0666 | .0643 | 62 |
| 63 | .0770 | .0740 | .0685 | .0658 | 63 |
| 64 | .0791 | .0755 | .0705 | .0673 | 64 |
| 65 | .0813 | .0772 | .0727 | .0689 | 65 |
| 66 | .0837 | .0790 | .0749 | .0706 | 66 |
| 67 | .0862 | .0809 | .0773 | .0723 | 67 |
| 68 | .0888 | .0829 | .0797 | .0742 | 68 |
| 69 | .0916 | .0849 | .0824 | .0762 | 69 |
| 70 | .0946 | .0872 | .0852 | .0782 | 70 |
| 71 | .0976 | .0894 | .0881 | .0805 | 71 |

### CALCULATION OF BENEFIT UNDER OPTION B

Table 25 gives the annuity per dollar of lump sum (accumulated contributions or death benefit or both) payable to the beneficiary under Option B. The amount of the lump sum must be multiplied by the appropriate Option B factor given in the table. The result is the beneficiary's annuity for life beginning on the date of the death of the teacher.

*Example:* In the example given above, suppose that Mrs. E had chosen Option B instead of Option A. What would her annuity have been?

The Option B factor for a woman beneficiary of 55 (teacher appointed before July 1, 1947) is .0636. The product of $30,000 and .0636 is $1,908. This would have been Mrs. E's life annuity if she had chosen Option B.

If, by the time she died, Mrs. E had received annuity payments amounting to less than the initial sum of $30,000, the balance would be paid to her beneficiary (or her estate). For example, if Mrs. E had died 10 years after her husband's death, she would have received 10 x $1,908, or $19,080. Her beneficiary would then receive the difference between $30,000 and $19,080, or $10,920 as a lump sum.

Under Option A Mrs. E received $2,172 per year; under Option B the annual amount would have been $1,908. The difference, $264, represents the annual cost to Mrs. E of the insurance feature in Option B.

CHAPTER 19

# THE "DEATH GAMBLE" LAW

FOR MANY years prior to 1961, a teacher who became eligible to retire but wished to continue in service, was faced with a serious dilemma. If he continued in service and died before retirement, his beneficiary would receive the death benefit and accumulated contributions described in the preceding chapter. If, however, the teacher retired under Option I, the beneficiary, upon the death of the teacher, would receive the benefits under this option if the teacher lived at least thirty days after the date of his retirement. Should this teacher die a short time after the expiration of this thirty-day period, the amount payable to the beneficiary under Option I, would *in nearly all cases* be considerably larger than the amount payable to him had the teacher died while he was still in active service.

## DEATH BENEFIT—TEACHER ELIGIBLE TO RETIRE

To resolve this dilemma, the so-called "Death Gamble" law was enacted in April 1961. The essential purpose of this law is to protect the beneficiaries of those teachers who continue to teach after they become eligible for service retirement.

The main provision of the "Death Gamble" law is this: If a teacher who is eligible to retire for service* dies before he has actually retired, he is nevertheless deemed to have retired *on the day before his death*. The benefit payable to the beneficiary (or estate) shall be the benefit set forth in the latest retirement option that the teacher had filed at the Retirement Office.

* The "Death Gamble" law applies to both regular service retirement and retirement "on demand."

If the teacher had filed no option, the benefits shall be paid in accordance with Option I. Payment in this case shall be made to the teacher's estate.

Teachers who file an option before they apply for retirement generally file Option I. Some teachers file no option. It follows then, from the law as outlined above, that if a teacher dies after he becomes eligible for service retirement and before he has applied for retirement, his beneficiary (or estate) will, in almost all cases, receive the benefits of Option I. These benefits will normally be far greater than they were in similar situations before the "Death Gamble" law was enacted.

The "Death Gamble" law also applies when a teacher files an application for service retirement to take effect on a *given date* and he dies before 30 days have elapsed after the *given date*. In this situation, too, the teacher is deemed to have retired on the day before his death. The benefit payable to the beneficiary depends on the option chosen by the teacher in his application for retirement.

*Note*: Before the enactment of the "Death Gamble" law, there was also a 30-day provision—with an entirely different result. If a teacher filed an application for service retirement to take effect on *a given date* and the teacher died before 30 days had elapsed *after* the *given date;* then there was no *effective retirement* and the option chosen was void. The benefit payable to the beneficiary was determined on the assumption that the teacher died in "service."

As will later be explained more fully, a literal reading of the "Death Gamble" law resulted in a lower benefit to beneficiaries in some cases. To prevent a result that was never intended, an amendment to the "Death Gamble" law was enacted in 1962. The amendment provides as follows: If a teacher dies under circumstances when the "Death Gamble" law applies, the beneficiary may choose the benefits under the pre-1961 law in lieu of the benefits under the "Death Gamble" law.

*Example*: Mrs. F was eligible to retire under the 55-30 law on September 10, 1961. Her city service began in September 1930. She continued in service until she died on October 5, 1962 at the age of 56. She had Option I on file at the Retirement Office. Her average salary was $8,000. She had accumulated $21,000 in her annuity savings account. The normal pension reserve under Option I in her case amounted to $30,000. The special pension reserve was $800. How much did her beneficiary receive?

Since Mrs. F, who was eligible to retire, died while in service, after the passage of the "death gamble" law, she was deemed to have retired on October 4, 1962, the day before her death. Her beneficiary was entitled to the benefits under Option I; namely, (a) $21,000, the total of her annuity savings account, (b) $800, the special pension reserve (contributions by the city for increased-take-home-pay), and (c) $30,000, the normal pension reserve under Option I. The total lump sum paid to the beneficiary was $51,800.*

What would the beneficiary have received under the pre-1961 law? The payment would have been made in accordance with the provisions for death-in-service. It would have consisted of (a) $21,000, Mrs. F's contributions plus interest, (b) $800, the special pension reserve from the city for increased-take-home-pay, and (c) $8,000, the normal death benefit (100% of the average salary). The total amount payable to the beneficiary under the pre-1961 law would have been $29,800.

Thus, the beneficiary in this case gained $22,000 through the passage of the "death gamble" law. If Mrs. F had no option on file, the law orders that the benefits under Option I be paid to the estate of the teacher. In this case, the lump sum of $51,800 would have been paid to Mrs. F's estate.

## THE 1962 AMENDMENT TO THE "DEATH GAMBLE" LAW

The primary purpose of the "Death Gamble" law is to protect the beneficiaries of those teachers who continue to teach after they become eligible for service retirement. The reader knows that, if one of these teachers dies before he files an application for service retirement, his beneficiaries will be entitled to the full benefits of Option I (except in those rare cases where the teacher had previously filed a different option).

The law has proved to be of great help to many beneficiaries. However, because of a defect in the wording of the "Death Gamble" law, unfortunate results developed in several cases. Some beneficiaries actually received smaller benefits under the "Death Gamble" law—in comparison with the benefits payable before April 1961.

* If Mrs. F wished to do so, she could have elected to have the benefit under Option I paid to her beneficiary in the form of an annuity for life. If Mrs. F had not so elected, her beneficiary could, after Mrs. F's death, have elected to take the benefit as an annuity instead of a lump sum.

Let us calculate the amount of that annuity, assuming that Mrs. F's husband was the designated beneficiary and he was 63 when Mrs. F died. Table 24 shows that, in the case of a teacher appointed before July 1, 1947, the annuity factor for a male beneficiary, age 63, is .1007. Multiply $51,800 by .1007. The product, $5,216, is Mr. F's annuity for life.

*Here is one illustration*: On August 20, 1961, Mr. G, who had completed 35 years of service, filed an application for service retirement. In the application, he specified September 5 as his retirement date and he chose Option IV-b for $5,000. Unexpectedly, G died on September 2. He had not actually retired; he came under the "Death Gamble" law. Unfortunately, the latest option now on file was Option IV-b for $5,000. The beneficiary was entitled to $5,000—and no more.

Note that if the "Death Gamble" law had not been enacted, G would have been considered as dying in SERVICE. Under the pre-1961 law, his beneficiary would have received these three sums:

1. G's total contributions with interest;
2. The city's normal death benefit which, in most cases, is approximately a year's salary—often more; and
3. The small special pension reserve resulting from the city's 5% contributions.

The "Death Gamble" law was intended to increase the benefits for beneficiaries of teachers who died when they were eligible for service retirement. We suddenly discovered that, in some exceptional cases, the benefits were seriously reduced.

To remedy the defect in the 1961 law, an amendment was added in 1962. The essential provision of the amendment is this: If a teacher dies under conditions when the "Death Gamble" law applies, the beneficiary shall have the right to choose the benefits under the pre-1961 law in lieu of the later benefits of the "Death Gamble" law.

*An illustration is again in order*: Miss W filed an application for service retirement to take effect on October 1, 1962. In the application she chose Option I on the ANNUITY only. Her option provided that her total annuity fund ($20,000) shall be guaranteed—that is, the part not paid to her shall be paid to her beneficiary. Unfortunately, on October 15, Miss W was killed in an accident. What is the amount payable to her beneficiary?

The reader will recall that the "Death Gamble" law applies in these two situations:

Situation I: when a teacher is eligible for service retirement and he dies before he has actually retired; or

Situation II: when a teacher has filed an application for service retirement to take effect on a given date and he dies before 30 days have elapsed after the given date.

In the light of Situation II, Miss W came under the "Death

Gamble" law. This would allow the beneficiary to receive only the annuity reserve of $20,000 chosen as an option in Miss W's application.

However, as indicated above, the 1962 amendment allows the beneficiary to choose the benefit of the pre-1961 law in lieu of the benefit of the "Death Gamble" law. She naturally chose the former benefit and received the following sums:

1. The teacher's annuity reserve of $20,000;

2. The city's normal death benefit, which in this case was about $13,000; and

3. The small special pension reserve resulting from the city's 5% contributions. In this case, this added sum was about $1,000.

*Note*: If a teacher files an application for service retirement to take effect on a *given date* and the teacher dies later than 30 days AFTER the *given date*, the beneficiary has no choice—only the option chosen in the retirement application will govern.

## DEATH GAMBLE LAW AND DEMAND RETIREMENT

We have seen that when a teacher is eligible for "regular" service retirement, his beneficiaries will receive maximum financial protection if, unfortunately, the teacher dies before he has actually retired. The reader will recall that a teacher is eligible for "regular" service retirement if he meets one of these three tests:

1) He has completed 35 years of service—regardless of his age, or

2) He has reached age 65—regardless of length of service, or

3) Having chosen to be covered by the 30-55 law, he completed 30 years of service and reached age 55.

If a teacher satisfies any of the three tests here indicated, he is eligible for regular service retirement. If this teacher should die before he has actually retired, his beneficiaries will be entitled to the full benefits of Option I (except in those few cases where the teacher had previously filed a different option).

What happens if a teacher meets only a part of the third test: he has completed 30 years of service but did not choose to be covered by the 30-55 law, *or* he completed 30 years of service but died before he reached age 55? This teacher is not eligible for regular retirement. However, the law permits one to retire after 30 years of service—even if he is not eligible for regular service retirement.

Retirement after 30 years when one is not eligible for regular retirement is called "Demand" retirement. The teacher who retires under "demand" retirement receives a city pension that is very much less than under "regular" retirement. It then follows that, if a teacher dies when he is eligible for "demand" retirement, the pension reserve under Option I will be much less than if he had been eligible for "regular" retirement.

*An illustration will help clarify the situation*: Mr. A was appointed in 1932; in 1951, he joined the 1% Clancy law. In 1960, he refused to join the 30-55 law. He died in 1963, before he actually retired. At the time of his death, his total service was 30 years and 9 months; his age was 56. He was eligible for "demand" retirement; he was NOT eligible for regular service retirement. His "average" salary was $9,000. His annuity reserve was $20,000.

Since the "death gamble" law covers "demand" retirement, the law considers that A retired under the provisions of Option I. His widow as beneficiary was entitled to these two reserves: the teacher's annuity reserve and the city's pension reserve. The annuity reserve was $20,000; the normal pension reserve was calculated to be $19,300. To this was added the small additional special pension reserve of $1,000 (as a result of the city's 5% contributions). Thus, the benefit to the beneficiary was the sum of $20,000, $19,300 and $1,000, or a total of $40,300.

*Note 1*: If A had chosen to come under the 30-55 law, then at the time of his death, he would have been eligible for "regular" service retirement. The normal pension reserve would, in this case, have risen to $27,900. The other two amounts, $20,000 and $1,000, would have remained the same. Hence the beneficiary would have been entitled to the sum of $20,000, $27,900 and $1,000, or a total of $48,900—an increase of $8,600 as compared to the benefit under "demand" retirement.

*Note 2*: If a teacher died before April 1961, when the "death gamble" law was enacted, and assuming that the other data were the same as in the illustration above, the city's normal death benefit would have been only $9,000—the teacher's "average" salary for the 5 years prior to his death. To this normal death benefit would have been added the teacher's annuity fund and the city's small additional payment resulting from the 5% contributions.

*Consider the case of Mrs. B*: She was appointed to the schools in 1929. In 1951, she chose the 1% Clancy law; later, she accepted coverage under the 30-55 law.

Unexpectedly, she died at the age of 54 years and 10 months. Her total service was 34 years and 10 months. Two months later, she would have been eligible for "regular" service retirement—either because she would have reached age 55 or because she would have completed 35 years of service. Alas! At the time of her death, she was eligible only for "demand" retirement—she had completed more than 30 years of service but had not fully met any of the tests for "regular" retirement. The "Death Gamble" law with the benefits of Option I protected B's beneficiaries. The city pension reserve payable to the beneficiaries amounted to $32,600.

If death had been postponed two months, B would have been eligible for "regular" service retirement. The pension reserve under Option I would now have been $41,300—an increase of $8,700.

The patient reader will note that the "Death Gamble" law protects the beneficiaries of a teacher who dies when he is eligible for *regular* service retirement and also when the teacher is eligible only for *demand* retirement. However, if death strikes a teacher who is eligible only for "demand" retirement, the pension reserve under Option I will be very much reduced—as compared to the pension reserve that is payable when the teacher is eligible for "regular" service retirement.

We must also recall this rule that applies in all cases when a teacher dies before he has actually retired: the total of the teacher's contributions (with interest) will be paid to the beneficiaries—in addition to the sums that are payable out of city funds.

## RECOMMENDATIONS

1. It must be emphasized that EVERY teacher should have Option I on file until he applies for retirement. When he applies for retirement, he may change Option I to any other option, or to retirement on maximum allowance.

2. If a teacher applies for service retirement under an option other than Option I, he should file his application at the Retirement Office not more than two or three days before the date of his retirement so that Option I, which it is assumed he has had on file, will be in effect as long as possible. (The application for service retirement must reach the Retirement Office at least one day before the date of retirement.)

3. If a teacher plans to retire under Option I, he may file his application for service retirement at any time within three months prior to the date of his retirement.

4. Teachers should periodically review the names of their beneficiaries—both under Option I and on the Designation of Beneficiary forms. If a teacher marries or remarries or if any other important change occurs, the teacher should promptly file new forms.

CHAPTER 20

# RETIREMENT INFORMATION FOR NEWLY APPOINTED TEACHERS

MEMBERSHIP IN THE Teachers' Retirement System is mandatory for all regularly appointed teachers. Form 2a, "Statement of Prior Service," which the teacher receives with his notice of appointment, should be filled in and returned promptly to the Retirement Office. If a teacher is now a member of the Retirement System as a result of a previous appointment to the public schools or the municipal colleges of New York City, he need *not* file a new "Statement of Prior Service" at the time of appointment to a new position.

To avoid loss of future benefits to himself or his family, the teacher should fill out Form 2a completely and accurately. He should give special attention to (a) his choice of one of the basic retirement plans, (b) his record of prior service, and (c) the designation of his beneficiaries on the separate form to be filed with Form 2a.

IMPORTANT: For your protection the "Statement of Prior Service" should be filed as early as possible.

## BASIC RETIREMENT PLANS

The teacher must choose one of the four retirement plans described on Form 2a. They are:

1. The "old law" plan providing generally for retirement at half pay after completing 35 years of service OR after attaining age 65.
2. The "old law" half-pay plan for retirement at age 55 AND 30 years of service.
3. The "Clancy law" plan providing for a pension (city's part of the retirement allowance) of one percent of average salary for each year of creditable service after completing 35 years of service OR after reaching age 65.

4. The "Clancy law" one-percent-pension plan for retirement at age 55 AND 30 years of service.

A teacher choosing one of these four basic plans is *not* required to retire when he becomes eligible to do so; he may remain in service until the end of the school year during which he reaches age 70. Also, under each of these plans, the teacher will be assigned a rate of contribution which will be sufficient to provide an annuity at retirement approximately equal to the pension furnished by the city.

It should be noted that since 1960 the city has been paying a part of each teacher's contribution for him so that the teacher may have increased take-home pay. Since 1961, the part assumed by the city has been 5% of the teacher's contribution.

ALL NEWLY APPOINTED TEACHERS ARE URGED TO CHOOSE RETIREMENT PLAN 4. The teacher may deprive himself, or his beneficiaries, of important rights and benefits if he fails to choose plan 4 (Clancy plus 55-30). If a teacher is inclined to choose one of the other three plans, he should consult the Service Division of the Retirement Office or a recognized pension authority.

Under the Retirement law, a newly appointed teacher who does not elect to come under the Clancy law or the 55-30 law will not be able to do so later on. However, a teacher who chooses the Clancy law or the 55-30 law or both (as in plan 4), may withdraw from coverage under either or both of these laws, provided that at least one year has elapsed since he made his choice.

By electing to contribute towards his annuity at the rate of 15%,* the actual rate of contribution of a newly appointed teacher can be reduced to 10% of his salary. This is due to the 5% contribution made by the city for the teacher to provide him with increased take-home pay. The new teacher's actual rate of contribution may be further reduced by approximately 3% if the teacher will arrange to have his social security tax paid out of his annuity fund instead of his monthly check.

## RECORD OF PRIOR SERVICE

It is important that a newly appointed teacher list all his city service prior to appointment. He should include all his substitute teaching in the public day and evening schools, his playground service, his service in the municipal colleges (day and evening), and his

* No teacher is required to contribute at a rate higher than 15%. In fact, many newly appointed teachers are assigned a rate lower than 15%.

service in any department of the city or of the counties within the city.

A teacher who, prior to his appointment in the city, was a member of the New York State Teachers' Retirement System or of the New York State Employees' Retirement System should consult the Service Division of the Retirement Office about possible credit and how to proceed in order to obtain the credit. It is especially important to consult the Service Division if he had New York City service prior to membership in one of the State Retirement Systems.

If the teacher had taught on an annual salary in recognized schools or colleges not maintained by the City or State of New York, such service should also be listed. Credit for this service can be obtained only by paying for it. In some cases, purchase of this credit may be advisable. Consult the Service Division of the Retirement System.

Credit for prior service is valuable because it may enable the teacher to retire at a younger age and it will generally result in larger benefits to the teacher or his beneficiary. For these reasons it is important that the incoming teacher furnish a complete record of prior service on Form 2a.

## DESIGNATION OF BENEFICIARY

If a teacher dies before he is eligible to retire, his beneficiary will receive two separate sums: (1) the teacher's contributions with interest and (2) a death benefit* from funds furnished by the city.

On the separate "Designation of Beneficiary" form which accompanies Form 2a the newly appointed teacher should designate the names of the beneficiaries who are to receive the accumulated contributions and the death benefit. The same beneficiary may be designated for both sums, or a different beneficiary may be named for each. Two or more persons may be named for each sum.

A teacher may change his beneficiary (or beneficiaries) at any time prior to his retirement. To protect his dependents, every teacher is advised to file a new "Designation of Beneficiary" blank at the Retirement Office without delay whenever a change of marital status or any other condition warrants such action.

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* The death benefit furnished by the city consists of two separate amounts: (a) the normal death benefit which varies between the salary of the teacher for a half year and a full year and (b) contributions (plus interest) made by the city for the teacher in order to provide him with increased take-home pay.

## RESIGNATION

When a teacher resigns from the school system, he may withdraw the entire amount of his own accumulated contributions. However, he is not entitled to receive any part of the city's contributions on his behalf.

If a teacher who has resigned does not withdraw his own contributions in the Retirement System, interest will be added regularly for a period of five years following his resignation. Thereafter interest payments will cease.

Should a teacher be dismissed from the service, the amount of his accumulated contributions will thereupon be paid to him; no interest can be added to these contributions after the date of dismissal.

If a teacher resigns, leaving his contributions in his annuity fund at the Retirement Office, and is later restored to service within five years after his resignation, he is entitled to the service credit and status held by him immediately prior to his resignation. If he served as a substitute teacher between the dates of resignation and reinstatement, he will be entitled to receive additional pension credit for such service. The reinstated teacher should apply, in writing, for such credit as soon as possible after his restoration to service.

FOR HIS OWN PROTECTION, A TEACHER WHO RESIGNS SHOULD NOT WITHDRAW HIS FUNDS FROM THE RETIREMENT SYSTEM DURING THE FIVE-YEAR PERIOD FOLLOWING HIS RESIGNATION.

CHAPTER 21

# LOAN PRIVILEGE

ONE OF THE privileges of membership in the Retirement System is the right to borrow from the System. These are some of the rules that apply to loans:

1. Membership in the Retirement System for at least three years is a prerequisite to obtaining a loan.

2. The amount of the loan is subject to these conditions:

   a. No loan is allowed for more than 50% of the teacher's accumulated deductions (his contributions with interest).

   b. No loan may exceed 89%* of the teacher's annual salary. For a borrower who will reach mandatory retirement in less than four years, the loan will be less than 89% of a year's salary. A teacher age 67 may normally be able to borrow about 68% of a year's salary; at age 68, the loan will normally be about 47%; and at age 69, about 24% of annual salary.

3. Loans (with interest added) are repaid by deductions from the borrower's salary. Repayment may not be less than 5% nor more than 25% of the monthly salary.

4. A loan may not be made for more than 48 months. After a borrower retires, loans may not be repaid. If a teacher retires before a loan has been fully repaid, the unpaid balance is deducted from the amount in his annuity fund. His annuity will then be smaller than if the loan had been completely repaid.

5. Interest is charged on the unpaid balance of the loan at the rate of 6% for teachers appointed before July 1, 1947 and 5% for those appointed on or after that date.

6. Interest is credited at the rate of 4% for teachers appointed prior to July 1, 1947 (3% for those appointed on or after that date)

* About 91% of a teacher's annual salary for a teacher appointed after June 1947.

on monthly repayments of the loan from the date of repayment in the same way as on regular monthly contributions. In every case, after the loan has been completely repaid, the total amount in the teacher's annuity savings account will be the same amount that would have been there if no money had been borrowed.

7. Loans are insured by the Retirement System, in the event of the death of the teacher, in an amount not in excess of $2,000. No part of the loan is insured until thirty days have elapsed. From the 30th through the 59th day, 25% of the outstanding balance of the loan is insured; from the 60th through the 89th day, 50%; on and after the 90th day, the full value of the outstanding loan, but not over $2,000, is insured.

8. If a teacher should require additional funds before a loan has been repaid, the Retirement Office will accept an application for a new loan. The old loan will be cancelled and a new loan made, based on the unpaid balance of the old loan plus the additional amount requested by the teacher. The new loan must comply with the conditions stated above.

9. An application for a loan may be made by a teacher while he is on leave of absence without pay.

CHAPTER 22

# WORK AFTER RETIREMENT

WE SHALL NOW discuss the limitation of earnings of a retired teacher who is employed by a public agency within the City or State of New York. There is no restriction on the amount of earnings of a retired teacher if he is employed in any capacity by a private employer, or by the federal government, or by a state or local government other than the State of New York or one of its political subdivisions.

## LIMIT OF EARNINGS BY RETIRED TEACHER

Under State law a retired teacher may be employed by any public agency or department within the City or State of New York, with this limitation: The sum of his *earnings* from such employment and the *pension* part of his retirement allowance may not exceed $1,800 without penalty. If this limit is exceeded, the retired teacher forfeits his pension during the period of such employment. The annuity part of the retirement allowance is not affected by his earnings.

The pension part of the retirement allowance of teachers who retired in recent years is generally larger than $1,800. Accordingly, with rare exceptions, a recently retired teacher who accepts public employment within the City or State of New York should be prepared to forfeit the pension part of his retirement allowance while he is so employed.*

## RETIRED TEACHER SERVING AS SUBSTITUTE TEACHER

In recent years the State legislature has enacted emergency

* See next section for special rule for retired teachers serving as substitutes in the city schools.

laws extending the amount that a retired teacher may earn as a substitute teacher in the public schools or as a lecturer on an hourly, daily or monthly salary basis in the publicly supported colleges within the State of New York without loss of his pension. This was done to alleviate the acute shortage of teachers. At the present time, the total earnings of a retired teacher so employed may be as high as $7,000 during a calendar year without penalty. If his total annual earnings exceed $7,000, he may be required to forfeit his entire pension.

IMPORTANT NOTE: If a teacher plans to retire in order to increase his take-home pay by serving as a full-time substitute, he should give careful consideration to the following:

1. His income will be *temporarily* increased while he is receiving both his retirement allowance and earnings as a full-time substitute. After he discontinues his substitute service, his retirement allowance *for the remainder of his life,* will be less than it would have been had he postponed his retirement until he gave up full-time teaching. Is the temporary increase in income worth the loss of the larger retirement allowance during his later years?

2. The enactment of the Death Gamble law assures the teacher that *as long as he remains in service as a regular teacher* after he has become eligible to retire for service, he is providing the largest financial benefit possible to his beneficiaries. (See Chapter 19.)

3. There is no guarantee that the law permitting a retired teacher to earn as much as $7,000 a year as a substitute teacher will be enacted in future years. On the contrary, it is expected that, if the teacher shortage is significantly reduced, the retired teacher's permissible earnings as a substitute will be substantially lowered. In fact, if new teachers are in good supply, it is unlikely that emergency legislation to encourage retired teachers to return to the classroom will be enacted. In that event, the retired teacher serving as a substitute in the public schools will be subject to the same earnings limitation as that of a retired teacher who accepts employment in other public agencies within the City and State of New York.

## WORK BY TEACHER RETIRED FOR DISABILITY

A teacher retired for disability may not serve as a substitute teacher in the public schools of the city. He may accept other employment subject to the limitations set forth above.

A teacher retired for disability should keep in mind the fact that he may be required to undergo a medical examination by the medical board of the Retirement System once each year until he attains age 65. If he accepts a teaching position outside the city, his disability retirement may be terminated and he may be restored to service in the city schools. He does not incur the same risk if he is employed in a non-teaching position.

## CHAPTER 23

# TERMINAL LEAVE

TERMINAL OR retirement leave—absence from duty at full pay —will be granted to contributors to the Teachers' Retirement System under the following conditions:

1. An application for retirement leave must be filed with the Division of Personnel on a special form which may be obtained from the school secretary. The Board of Education by-laws provide that the application must be submitted at least one month prior to the beginning of the requested leave; for a leave beginning in September, the application should be filed not later than June 1.

2. The length of the retirement leave shall be *one-half the number of days* of the accumulated unused sick leave *up to a maximum of one school term.* The by-laws do not permit the leave to extend from one school term into the next; it must be confined to one term.

3. A teacher may apply for a retirement leave if at the time of application he is eligible for retirement, or if he will become eligible to retire at the termination of his leave.

4. Although the teacher signifies on the application that it is his intention to retire on the first school day immediately following the termination of his leave, he need not retire at that time; he may resume active service upon the termination of his leave if he obtains the permission of the Personnel Division.

5. A retirement leave may be cancelled when a teacher on such leave files an application with the Personnel Division for reinstatement, in which case he shall forfeit any future right to the number of days already taken. However, according to the by-laws, the leave may not be terminated in the month of January or June.

6. On resuming service at the termination of the retirement leave, the teacher will be entitled to his unused accumulated sick

leave in the event of personal illness subsequent to his return to duty. He will be credited with 10 days of additional sick leave for each succeeding year in service.

7. If a teacher is granted two separate retirement leaves, the total of both may not exceed the number of days in one school term.

8. A teacher who becomes ill during the period of his retirement leave, may apply to the Division of Personnel for a sick leave. If approved by the Medical Director, the number of days of sick leave to which he is entitled is determined by subtracting the number of school days actually taken as retirement leave from the total accumulated unused sick leave.

9. A retirement leave shall be terminated when a teacher files an application at the Retirement Office for immediate retirement from the school system.

10. Days when schools are not in session, including vacations and holidays, shall not be counted in calculating a retirement leave. When a vacation period intervenes between the end of a retirement leave and the teacher's retirement date, such vacation period will be considered a period of active service for all purposes including compensation.

11. A teacher on retirement leave is prohibited from serving in any capacity under the jurisdiction of the Board of Education, or in any publicly supported institution in the City or State of New York, during the period of his leave. There is no restriction on private employment, or on public employment outside the State of New York, during the period of the leave.

12. A teacher on retirement leave is entitled to full pension credit during the period of the leave, including the city's contribution of 5% to the reserve-for-increased-take-home-pay.

13. Members of the Teachers' Retirement System who teach in the municipal colleges shall be eligible for retirement leave on the same basis as employees of the Board of Education, except that the retirement leave privileges of college employees shall be based on the regulations of the Board of Higher Education.

CHAPTER 24

# LEAVES OF ABSENCE WITHOUT PAY

TEACHERS MAY be granted leaves of absence without pay for a number of reasons. However, many do not realize that it is possible in some cases for the teacher to receive service credit for retirement purposes for the period of the leave. This chapter will concern itself with a discussion of leaves of absence without pay for which service credit may be claimed.

## LEAVES OF ABSENCE FOR RESTORATION OF HEALTH (WITHOUT PAY)

Teachers who have been granted leaves of absence *without pay* for reasons of health may receive service credit toward retirement under the following conditions:

1. The teacher must file a written application for retirement credit for such leave of absence with the Personnel Division of the Board of Education within thirty days after he resumes service.
2. The Board of Education may then recommend to the Teachers' Retirement Board that retirement credit be granted for the leave of absence without pay for restoration of health.
3. The total retirement credit for all such leaves of absence taken by a teacher during his teaching career may not exceed one year.

## LEAVES OF ABSENCE FOR STUDY, RESEARCH, ETC.

Service credit for retirement purposes, not to exceed two years, may be granted to teachers in the public schools and municipal colleges of the City of New York who have taken leaves of absence without pay for the purpose of:

(a) Study, research and teaching under Fulbright, Unesco, Ford Foundation and similar grants recognized by the Board of Education or Board of Higher Education.

(b) Service in the Peace Corps.

(c) Participation in scientific and educational projects under the auspices of, or recommended by, federal, New York State or City governmental agencies.

(d) Teaching at one of the branches of the New York State University.

(e) Teaching dependent children of military personnel overseas.

(f) Participation in special educational projects recognized by the Board of Education or Board of Higher Education.

## MILITARY LEAVES

A regularly appointed teacher who is called to military duty will receive full pension credit for such service. He will be required to contribute to the Retirement System for the period of his military leave the same amount that he would have contributed had he not been on leave. He can make his annuity contributions using one of the following methods:

1. He may deposit monthly into the Retirement System, during the period of his military leave, the amount that would have been deducted from his monthly salary had he remained in the System.
2. He may pay a lump sum equal to the total amount of contributions due when he resumes his teaching service or at any time within five years following the termination of his leave.
3. He may elect to have the total amount due pro-rated during the five-year period following his return from the military leave. The pro-rated monthly amount, added to his regular contribution, will be deducted from his monthly salary during the five-year period.

A teacher who fails to make the required contributions within five years from the completion of the military leave, will forfeit all rights to credit for his military service.

Teachers who have any questions concerning leaves of absence without pay should make inquiries at the Personnel Office of the Board of Education or the Board of Higher Education.

CHAPTER 25

# SOCIAL SECURITY FOR TEACHERS

IN DECEMBER 1957 the teachers of New York City, in a special referendum, voted overwhelmingly in favor of accepting federal social security coverage. This coverage was made retroactive to the beginning of 1956. The teachers *and* the city were required to pay an amount equal to the total social security tax for the two years 1956 and 1957. Those regular teachers who were in service in December 1957 who preferred not to be covered by social security were not included. However, teachers appointed after 1957 had no choice; they were automatically covered by federal social security.

## QUARTERS OF COVERAGE

In order to qualify for social security benefits on his own work a teacher must be *Fully Insured*. This means that he must have been employed on a social security covered job for a certain length of time measured in "quarters of coverage." A quarter of coverage corresponds to a calendar quarter of work (a three-month period ending March 31, June 30, September 30 or December 31) during which he was paid at least $50 in wages.

The number of quarters of coverage required for social security benefits has been substantially reduced since these benefits first became available to teachers in the public schools. Many teachers and retired teachers who could not qualify for benefits on the basis of earlier requirements can now do so.

Under the present law, a *man* is "fully insured" if the number of "quarters" he acquires equals the number of years that elapse after the year 1950 and before the year when he reaches age 65.

A *woman* is "fully insured" if the number of "quarters" she acquires equals the number of years that elapse after the year 1950 and before the year when she reaches age 62.

The above statements lead to two simple rules:

RULE 1. A man can calculate the number of quarters he needs to be "fully insured" by subtracting 1951 from the year in which he reaches age 65.

*Example*: Mr. A was born in 1901; he will be 65 in 1966. Subtract 1951 from 1966; the result, 15, indicates that he needs 15 quarters to be "fully insured."

RULE 2. A woman can find the number of quarters she needs to be "fully insured" by subtracting 1951 from the year in which she reaches age 62.

*Example*: Mrs. B was born in 1902; she will be 62 in 1964. Subtract 1951 from 1964; the result, 13, indicates that she needs 13 quarters to be "fully insured."

This should be added: Regardless of the rules above, no one is fully insured unless he has at least 6 quarters of coverage; nor does any worker need more than 40 quarters to be fully insured.

## OLD-AGE BENEFITS

If an employee retires when he is "fully insured," he may apply for *Old-Age* benefits, provided he is age 62 or older. A woman teacher who has been paying Social Security taxes since 1956 and retires in the fall of the year when she is 65 or older is normally entitled to the maximum social security benefit of $127 monthly (provided she had never before accepted Social Security benefits). A male teacher, under similar circumstances, would have to be 67 or older in order to receive an old-age benefit of $127 monthly.

If one accepts benefits before age 65, the benefits will be lower than at 65.

A more precise calculation is needed in order to be able to ascertain the old-age benefit for a teacher. To this subject we now turn.

## CALCULATION OF OLD-AGE BENEFITS

In order to simplify the calculations involved, we will limit the explanation to teachers who accepted Social Security coverage in 1957, retroactive to January 1, 1956. We will recall that teachers paid Social Security taxes on $4,200 for each of the years 1956, 1957 and 1958. Thereafter, Social Security taxes have been paid each year on $4,800.

The principal factor in determining an employee's old-age benefit is his "average monthly earnings" on which Social Security taxes were paid. The calculation of the average monthly earnings and the resulting old-age benefit will be made clear by means of specific examples. We assume that the teachers in the illustrations are "fully insured."

## CALCULATING THE BENEFIT FOR WOMEN

The rules for calculating the "average monthly earnings" of women are different from those which are used for men. We shall confine this section to the calculation of the benefits for women; the men will be considered later.

We shall consider separately these two situations in the case of women teachers:

*Situation I*: When the woman retires BEFORE the calendar year in which she reaches age 62.

*Situation II*: When the woman retires AFTER the calendar year in which she reaches age 61.

*Example 1*: Miss F was born February 1905. She expects to retire September 1964. Her Social Security benefits may begin February 1967 at age 62. We shall calculate F's "average monthly earnings" and the amount of her benefit. (We assume that she will apply for benefits beginning February 1967.)

STEP A: In the case of a *woman who retires before the year in which she reaches age 62* (*Situation I*), we list all her Social Security earnings from 1956 through the year when she reaches age 61—in F's case, 1966. Since she plans to retire in 1964, her earnings for 1965 and 1966 will be zero; these years must be included. The list will then be as follows:

| *Year* | *Earnings* | *Year* | *Earnings* | *Year* | *Earnings* |
|---|---|---|---|---|---|
| 1956 | $4200 | 1960 | $4800 | 1964 | $4800 |
| 1957 | 4200 | 1961 | 4800 | 1965 | zero |
| 1958 | 4200 | 1962 | 4800 | 1966 | zero |
| 1959 | 4800 | 1963 | 4800 | | |

STEP B: In the case of a woman who retires before the year when she reaches 62, we count the number of years in the above list. The number is 11. We change the 11 years to months; 11 x 12 equals 132 months.

STEP C: We add the total earnings listed above for the 11 years. The sum is $41,400.

STEP D: To obtain the average monthly earnings, we divide the total earnings, $41,400, by the number of months, 132. The

TABLE 26

## MONTHLY OLD-AGE (SOCIAL SECURITY) BENEFITS

| Average Monthly Wage | Benefit Age 65 | Benefit Age 62 | Average Monthly Wage | Benefit Age 65 | Benefit Age 62 |
|---|---|---|---|---|---|
| $151-155 | $ 74 | $59.20 | $278-281 | $101 | $ 80.80 |
| 156-160 | 75 | 60.00 | 282-286 | 102 | 81.60 |
| 161-164 | 76 | 60.80 | 287-291 | 103 | 82.40 |
| 165-169 | 77 | 61.60 | 292-295 | 104 | 83.20 |
| 170-174 | 78 | 62.40 | 296-300 | 105 | 84.00 |
| 175-178 | 79 | 63.20 | 301-305 | 106 | 84.80 |
| 179-183 | 80 | 64.00 | 306-309 | 107 | 85.60 |
| 184-188 | 81 | 64.80 | 310-314 | 108 | 86.40 |
| 189-193 | 82 | 65.60 | 315-319 | 109 | 87.20 |
| 194-197 | 83 | 66.40 | 320-323 | 110 | 88.00 |
| 198-202 | 84 | 67.20 | 324-328 | 111 | 88.80 |
| 203-207 | 85 | 68.00 | 329-333 | 112 | 89.60 |
| 208-211 | 86 | 68.80 | 334-337 | 113 | 90.40 |
| 212-216 | 87 | 69.60 | 338-342 | 114 | 91.20 |
| 217-221 | 88 | 70.40 | 343-347 | 115 | 92.00 |
| 222-225 | 89 | 71.20 | 348-351 | 116 | 92.80 |
| 226-230 | 90 | 72.00 | 352-356 | 117 | 93.60 |
| 231-235 | 91 | 72.80 | 357-361 | 118 | 94.40 |
| 236-239 | 92 | 73.60 | 362-365 | 119 | 95.20 |
| 240-244 | 93 | 74.40 | 366-370 | 120 | 96.00 |
| 245-249 | 94 | 75.20 | 371-375 | 121 | 96.80 |
| 250-253 | 95 | 76.00 | 376-379 | 122 | 97.60 |
| 254-258 | 96 | 76.80 | 380-384 | 123 | 98.40 |
| 259-263 | 97 | 77.60 | 385-389 | 124 | 99.20 |
| 264-267 | 98 | 78.40 | 390-393 | 125 | 100.00 |
| 268-272 | 99 | 79.20 | 394-398 | 126 | 100.80 |
| 273-277 | 100 | 80.00 | 399-400 | 127 | 101.60 |

quotient, $313,* is the "average monthly earnings."

STEP E: Finally, we look at Table 26. We find that, for the "average monthly earnings" of $313, the benefit at age 62 is $86.40 monthly.

*Example 2*: Mrs. W was born August 1901. She plans to retire September 1966, shortly after age 65. She wants to know what her old-age benefits will be.

We first calculate her "average monthly earnings." We proceed as follows:

STEP A: In the case of a *woman who retires after the year in which she reaches age 61* (*Situation II*), we list all her earnings on which Social Security taxes were paid, from 1956 through the year when she retires. Here is the list for W from 1956 through 1966:

* In calculating the average monthly earnings, we drop the fraction of a dollar.

| Year | Earnings | Year | Earnings | Year | Earnings |
|---|---|---|---|---|---|
| 1956 | $4200 | 1960 | $4800 | 1964 | $4800 |
| 1957 | 4200 | 1961 | 4800 | 1965 | 4800 |
| 1958 | 4200 | 1962 | 4800 | 1966 | 4800 |
| 1959 | 4800 | 1963 | 4800 | | |

STEP B: For a woman who retires after the year she reaches age 61, we count the number of years from 1956 through the year 1962, when she reached age 61. The number of years is 7. *This number, 7, is important in the next step.*

STEP C: Now select 7 years with the largest earnings. The years from 1960 through 1966 are clearly the seven years, each with the maximum earnings of $4,800.

STEP D. Since the earnings for each of these 7 years were $4,800, the average *annual* earnings were $4,800. Obviously, $4,800 divided by 12 gives us $400 as the average *monthly* earnings for Mrs. W.

STEP E: Consult Table 26. We find that an employee whose average monthly earnings are $400 is entitled to an old-age benefit of $127 monthly, if she is 65 or older.

*Note*: If Mrs. W collected old-age benefits before she reached age 65, there will be a small reduction from the $127. Generally, for each monthly check accepted before age 65, the $127 benefit is reduced by about 70 cents.

## CALCULATING THE BENEFIT FOR MEN

We now turn to the men. Here, too, as in the case of the women, there are two situations:

*Situation I*: When the man retires before the calendar year in which he reaches age 65.

*Situation II*: When the man retires after the calendar year in which he reaches age 64.

We shall illustrate each situation.

*Example 1*: Mr. M, born in 1905, plans to retire September 1966 at age 61. We wish to calculate his average monthly earnings and his old-age benefit at age 62.

STEP A: In the case of a *man who retires before the year in which he reaches 65 (Situation I)*, we list all his Social Security earnings from the year 1956 through the year in which he reaches age 64. M will reach 64 in 1969. For the years 1967, 1968, 1969, his earnings are listed as zero. Here then is the required list from 1956 through 1969:

| Year | Earnings | Year | Earnings | Year | Earnings |
| --- | --- | --- | --- | --- | --- |
| 1956 | $4200 | 1961 | $4800 | 1966 | $4800 |
| 1957 | 4200 | 1962 | 4800 | 1967 | zero |
| 1958 | 4200 | 1963 | 4800 | 1968 | zero |
| 1959 | 4800 | 1964 | 4800 | 1969 | zero |
| 1960 | 4800 | 1965 | 4800 | | |

Step B: In the case of a man who retires before the year when he reaches age 65, we count the number of years in the above list. The number of years is 14. We change the 14 years to months; 12 x 14 equals 168 months.

Step C: We now add all the earnings in the list. The sum is $51,000.

Step D: To obtain the average monthly earnings, we divide the total earnings, $51,000, by the number of months involved, 168. The quotient $303,* is the average monthly earnings.

Step E: Finally, we consult Table 26 and find that corresponding to the "average monthly earnings" of $303, the old age benefit is $106 monthly for a man age 65, or $84.80 monthly for a man who receives his old age benefit at 62.

*Example 2*: Mr. N, born in 1899, plans to retire in September 1965 at age 66.

Before we determine his old-age benefit, we must calculate his "average monthly earnings."

Step A: When a *man retires after the year in which he reaches age 64* (*Situation II*), we list all his Social Security earnings from 1956 through the year when he retires. Here is the list for N from 1956 through 1965:

| Year | Earnings | Year | Earnings | Year | Earnings |
| --- | --- | --- | --- | --- | --- |
| 1956 | $4200 | 1960 | $4800 | 1964 | $4800 |
| 1957 | 4200 | 1961 | 4800 | 1965 | 4800 |
| 1958 | 4200 | 1962 | 4800 | | |
| 1959 | 4800 | 1963 | 4800 | | |

Step B: For a man who retires after the year in which he reaches age 64, we count the number of years from 1956 through the year when he reaches 64—in this case from 1956 through 1963. The

* See footnote on page 127.

number of years, by count, from 1956 through 1963, is 8. This number, 8, is important in the next step.

STEP C: From the above list, we select the 8 years when the annual earnings were largest. We have 7 years (1959 through 1965) for which the earnings were $4,800 yearly. We must add one year when the earnings were $4,200. Hence we select the 8 years from 1958 through 1965.

STEP D: We now add the earnings for the 8 years of highest earnings—1958 through 1965. The total of these earnings is $37,800. Since we want the average *monthly* earnings, we convert 8 years to 96 months. We divide the total earnings, $37,800, by the number of months, 96. The quotient, $393, is the average monthly earnings.

STEP E: Finally, we refer to Table 26. Corresponding to monthly earnings of $393, a man, age 65 or older, is entitled to an old-age benefit of $125 per month.

## DISABILITY BENEFITS

A *disabled* worker may apply for DISABILITY benefits at any age provided he meets the following conditions:

1. He must be incapable of engaging in any "gainful activity by reason of a medically determinable physical or mental impairment which can be of long-continued and indefinite duration" or which is likely to result in early death.

2. He must be "fully insured" and have at least 20 quarters of coverage in the 10 years immediately preceding his application for disability retirement.

The amount of a worker's monthly disability benefit will generally be the same as the old-age benefit he would have received if he had reached age 65 at the time he applied for disability benefits. A teacher who accepted Social Security coverage in 1957, retroactive to 1956, will normally receive about $124 monthly as a disability benefit.

## BENEFITS FOR DEPENDENTS

When an employee receives old-age or disability benefits, payments can also be made to certain dependents:

(a) To unmarried children under the age of 18.

(b) To unmarried children of any age who were severely disabled before age 18 and who remain disabled.

(c) To the wife of the employee if she is caring for a child in group (a) or (b) above.

(d) To the retired employee's wife, if she is 62 or older—even if no child is in her care.

(e) To the dependent husband of a retired woman—under certain conditions.

## AMOUNT PAYABLE TO DEPENDENTS

Generally, the monthly benefit payable to a member of group (a) or (b) or (c) above, or to a wife, age 65, is half of the "primary insurance amount" of the retired employee. By "primary insurance amount," is meant the amount received monthly by the employee if he retires at 65 or older. However, at no time, may the total benefit paid to all the eligible members exceed $254. If necessary, the benefits of the dependents are reduced in order that the limit of $254 be not exceeded.

*Example 1*: Teacher B, a man, retired September 1963, at age 66. He is receiving a monthly old age benefit of $125. His wife, age 65, is entitled to a benefit of half of $125, or $62.50 monthly. If B's wife were age 62, her benefit would be only 3/8 of $125—or $46.87 monthly. Under the rules, the $46.87 is increased to $46.90.

*Example 2*: Mr. K plans to retire at age 62—in September, 1964; he has a wife, age 50 and a daughter, age 12. What benefits are payable to the wife and daughter? If, at the time of his retirement, September 1964, K had delayed accepting his Social Security benefits for 3 years until he reached 65, his monthly benefit would then be $108. Since, however, he collects his benefit immediately upon retirement at age 62, he will receive only 80% of $108—or $86.40 monthly. Nevertheless, the benefits to the wife and daughter will be based on the larger sum—the $108 that would be payable to K at 65. The daughter will receive half of $108—or $54 monthly, until she reaches 18. Mrs. K will also receive $54 monthly, until the daughter reaches 18—provided Mrs. K is not earning more than $1,200 in a calendar year.

## BENEFITS TO SURVIVORS

When an employee who has been covered by Social Security dies, either before or after retirement, benefits may be paid to certain dependents:

(a) To unmarried children below the age of 18.

(b) To unmarried children of any age who were severely disabled before age 18 and who remain disabled.

(c) To the widow of the deceased if she is caring for a child in group (a) or (b) above.

(d) To the widow age 62 or older, even if she has no child in her care.

(e) To a dependent parent, age 62, or older.

(f) To a dependent widower, age 62 or older.

For benefits to be paid to an individual in group (a) or (b) or (c) above, it is sufficient if the deceased was EITHER "currently" OR "fully" insured. To be *currently* insured, the deceased had to have six "quarters of coverage" during the three years prior to his death.

For benefits to be paid to an individual in group (d) or (e) above, it is required that the deceased be "fully insured" at the time of his death.

For benefits to a dependent widower, the deceased must have been BOTH "fully" AND "currently" insured at the time of her death.

## AMOUNT PAYABLE TO SURVIVORS

1. A widow, age 62 or older, is entitled to a monthly benefit of 82.5% of the deceased husband's "primary insurance amount." If the husband was a teacher who accepted Social Security coverage in 1957 and retired in September 1963, at age 65, his primary insurance amount was $124. Upon his death, his widow, if she is 62 or older, will be entitled to 82.5% of $124—or $102.30 monthly for life, unless she remarries.

2. A widower, 62 or older, if he is dependent on his wife for support, would receive monthly 82.5% of the deceased wife's primary insurance amount—until he dies or remarries.

3. If only one dependent parent survives a son or daughter, the parent would be entitled to 82.5% of the primary insurance amount of the deceased son or daughter. If 2 dependent parents survive, each parent would be entitled to 75% of the primary insurance amount of the deceased.

4. The insurance benefit of an individual in group (a) or (b) or (c) is 75% of the primary insurance amount of the deceased.

*Note*: The total monthly benefit to all survivors may not exceed $254. If the total, under the above formulas, is more than $254, then the benefits for each eligible survivor will be reduced by the same percent—in order to bring the total to $254.

We shall close this subject with an illustration of the benefits to the survivors of a young teacher.

*Example*: Mr. D was appointed a teacher in the New York City public schools in 1955, at age 23. In 1957, he chose coverage under Social Security. He taught continuously until January 1964 when, unfortunately, he was killed in an automobile accident. He was survived by a young wife, age 29, and two children, ages 2 and 7. What benefits are payable to the survivors?

We must first calculate the "primary insurance amount" of the deceased. When a man dies before age 65, we nevertheless calculate the primary insurance amount as if he reached 65 at the time of his death. A calculation shows that for the deceased D, the primary insurance amount was $123.

The reader will recall that the survivor benefit for each child and for the mother who is caring for the children is 75% of the primary insurance amount of the deceased. The primary insurance amount, in this example, was found to be $123; 75% of $123 equals $92.25. Hence the total benefit of the children and their mother was 3 times $92.25, or $276.75. This amount must be reduced to $254 because the maximum allowable to any family is $254.

When the older child reaches 18, benefits to him will cease. Thereafter, until the younger child reaches 18, the family will receive a monthly benefit of twice $92.30 or $184.60. Note that the original benefit of $92.25 is, under the rules, changed to $92.30.

After the younger child reaches 18, no Social Security benefits will be paid, either to the children or to the mother, until Mrs. D reaches age 62. Then she will receive 82.5% of $123 or $101.47—which, under the rules, is changed to $101.50. This sum will be paid monthly to Mrs. D for life, unless she remarries.

In addition to the survivor benefits indicated above, it should be noted that a lump sum payment is made to help defray the funeral expenses of a deceased who was either "fully" or "currently" insured. The lump sum payment may be as much as three times the "primary insurance amount" of the deceased—but not in excess of $255. Normally, this lump sum will be paid to the widow or widower of the deceased. If persons, other than the widow or widower, have paid the funeral expenses, the lump sum may be paid to those who paid the expenses.

Additional examples of monthly Social Security benefits are given in Table 27.

TABLE 27

## EXAMPLES OF MONTHLY SOCIAL SECURITY BENEFITS

| Average Monthly Earnings After 1950 | $150 | $200 | $250 | $300 | $350 | $375 | $400 |
|---|---|---|---|---|---|---|---|
| Old-Age Benefit at 65 | 73.00 | 84.00 | 95.00 | 105.00 | 116.00 | 121.00 | 127.00 |
| Disability Benefit | 73.00 | 84.00 | 95.00 | 105.00 | 116.00 | 121.00 | 127.00 |
| Old-Age Benefit at 64 | 68.20 | 78.40 | 88.70 | 98.00 | 108.30 | 113.00 | 118.60 |
| Old-Age Benefit at 63 | 63.30 | 72.80 | 82.40 | 91.00 | 100.60 | 104.90 | 110.10 |
| Old-Age Benefit at 62 | 58.40 | 67.20 | 76.00 | 84.00 | 92.80 | 96.80 | 101.60 |
| | | | | | | | |
| Wife's Benefit at 65 | 36.50 | 42.00 | 47.50 | 52.50 | 58.00 | 60.50 | 63.50 |
| Wife's Benefit at 64 | 33.50 | 38.50 | 43.60 | 48.20 | 53.20 | 55.50 | 58.30 |
| Wife's Benefit at 63 | 30.50 | 35.00 | 39.60 | 43.80 | 48.40 | 50.50 | 53.00 |
| Wife's Benefit at 62 | 27.40 | 31.50 | 35.70 | 39.40 | 43.50 | 45.40 | 47.70 |
| Each child under 18 or disabled | 36.50 | 42.00 | 47.50 | 52.50 | 58.00 | 60.50 | 63.50 |
| Wife's Benefit if child in her care | 36.50 | 42.00 | 47.50 | 52.50 | 58.00 | 60.50 | 63.50 |
| | | | | | | | |
| Widow 62 or over | 60.30 | 69.30 | 78.40 | 86.70 | 95.70 | 99.90 | 104.80 |
| Each Surviving Child | 54.80 | 63.00 | 71.30 | 78.80 | 87.00 | 90.80 | 95.30 |
| Widow under 62 if child in her care | 54.80 | 63.00 | 71.30 | 78.80 | 87.00 | 90.80 | 95.30 |
| Widow under 62 and 1 child | 109.60 | 126.00 | 142.60 | 157.60 | 174.00 | 181.60 | 190.60 |
| Widow under 62 and 2 children | 120.00 | 161.60 | 202.40 | 236.40 | 254.00 | 254.00 | 254.00 |
| | | | | | | | |
| Maximum Family Benefit | 120.00 | 161.60 | 202.40 | 240.00 | 254.00 | 254.00 | 254.00 |

## EARNINGS AFTER RETIREMENT

Persons receiving Social Security benefits may earn not more than $1,200 in a calendar year without loss of benefits. If earnings are above $1,200 there will be a reduction of benefits.

One dollar will be deducted from the yearly Social Security benefits for each two dollars earned between $1,200 and $1,700. Thus, a retired worker who earned $1,600 will lose one-half of $400, or $200. His annual benefit will be reduced by $200.

For earnings above $1,700, the reduction from Social Security benefits will be dollar for dollar. Thus, if a retired teacher earned $2,000 during a calendar year, he will lose $250 for the $500 of his earnings between $1,200 and $1,700; in addition, he will lose $300 in benefits for the $300 he earned above $1700. His annual Social Security benefits therefore will be reduced by $250 plus $300, or $550.

However, the retired worker must be paid his Social Security benefit in full for any month in which his earnings are $100 or less. This rule applies no matter how great his earnings are during the rest of the year.

Wages paid to a teacher during July and August, *when he is not working*, are not considered earnings by the Social Security Administration. Therefore, if he is 62, or over and has not retired, he is entitled to receive Social Security benefits for these two months. Of course, he cannot receive these benefits if he does not apply for them.

After reaching age 72 a worker will receive his full benefit no matter how much he earns.

## SOCIAL SECURITY TAX

The social security tax of employees and employers for the years 1963 through 1965 is 3 5/8% of the first $4,800 of earnings per year. For nearly all regularly appointed teachers and regular substitutes this amounts to $174 per year. Under the law, the tax will be increased to 4 1/8% for the years 1966 and 1967, and 4 5/8% for the year 1968 and thereafter.

If a teacher prefers not to have his take-home pay reduced by the amount of his social security tax, he may request that the amount of the tax be paid for by a corresponding reduction in the amount of his annuity contributions. If a teacher makes this choice, his annuity contributions will actually be reduced by $174 per year in 1964 and 1965, and by larger amounts after 1965. This will result in a decrease in the teacher's annuity savings fund, and ultimately in a smaller annuity when he retires. However, the pension part of the retirement allowance will not be affected in any way by this choice of method of paying the social security tax.

Once each year, usually in December, teachers are given an opportunity to change their method of paying the social security tax. This is especially helpful to new teachers who are not given a choice at time of appointment. In the beginning, all newly appointed teachers must pay their social security tax by having their take-home pay reduced by the amount of the tax.

It is not necessary to consult an attorney about old-age, disability or survivor benefits. The local Social Security office is most helpful and gives prompt, courteous and efficient service.

CHAPTER 26

# TAXES ON RETIREMENT INCOME AND RELATED TAXES

IN THIS CHAPTER we shall explain some of the tax laws that concern the teacher when he retires. We shall also try to clarify the tax laws that are important to beneficiaries of teachers who die—either before or after retirement.

## INCOME TAX ON SERVICE RETIREMENT ALLOWANCE

New York State exempts members of public retirement systems from paying an income tax on their retirement allowances.

The federal law, however, does impose an income tax on the retirement allowance of members of public retirement systems—though not on the entire income. As far as teachers are concerned, the part of the income excluded from the tax depends chiefly on the net contributions (without interest) of the teacher during all his teaching years. The exclusion also depends, to a lesser extent, on the contributions made by the city to provide the pension of the teacher for the years before 1939—when teachers' salaries were exempt from federal income taxes.

When a retired teacher prepares his federal tax return, an important problem is the calculation of the amount to be excluded from his retirement income. The patient reader is invited to follow carefully the two illustrations here given:

*Example 1*: Mrs. W retires at age 61. She chooses no option and is entitled to a retirement allowance of $6,000. Shortly after her retirement, the Retirement Office sends her a statement in which she is informed that (a) her net contributions were $20,700 and

(b) the city's contributions for the years before 1939 were $4,500. The total of these two sums, $25,200, is technically called Mrs. W's "Investment in the Contract." She is informed that this total, $25,200, may be used to reduce her "Taxable Income." The entire sum is not to be used immediately; it is to be spread over her probable future lifetime.

To find her probable future lifetime, we must use the actuarial tables of the Treasury Department. A booklet, IRS Publication No. 76, informs us that a woman, age 61, has a life expectancy of 21 years. Clearly, if she divides the Investment in the Contract, $25,200, by 21, the quotient is $1,200. This amount, $1,200, represents the sum that W may exclude from her retirement income of $6,000 each year for life. Hence the taxable amount will be the difference between $6,000 and $1,200—that is, $4,800.

*Example 2*: Mr. M retires at age 65. He chooses Option 4-b; his net annual allowance is $5,400. The Retirement Office informs him that (a) his net contributions were $22,000 and (b) the city's contributions for the period before 1939 were $5,000. Thus, the total credit (or Investment in the Contract) that Mr. M may use is $27,000 (the sum of $22,000 and $5,000). The Treasury Department table shows that a man of 65 has a life expectancy of 15 years. Thus the annual exclusion allowed Mr. M is $27,000 divided by 15, or $1,800. His retirement allowance is $5,400. Hence the difference between $5,400 and $1,800, namely $3,600, is the taxable amount of Mr. M's retirement income.

*Note*: The two examples above illustrate a simple method for calculating the taxable amount of retirement income for teachers who retire without an option or for those who choose Option 4-b. When other options are chosen, the tax calculation is more complicated.

It should also be added that when the tax return is prepared in accordance with official directions, the method prescribed is quite different from the method used in the illustrations above—though the result will be the same.

Many teachers will find it difficult to prepare their first tax return on their retirement income. They may receive help at the Internal Revenue offices or they may choose to consult a recognized authority in pensions and taxes.

It is in order now to insert the official life expectancy table for the ages of normal service retirement.

TABLE 28

LIFE EXPECTANCY FOR INCOME TAX PURPOSES
(from IRS Publication No. 76)

| Age | Man Life Expectancy | Age | Woman Life Expectancy |
|---|---|---|---|
| 53 | 23.2 | 53 | 27.1 |
| 54 | 22.4 | 54 | 26.3 |
| 55 | 21.7 | 55 | 25.5 |
| 56 | 21.0 | 56 | 24.7 |
| 57 | 20.3 | 57 | 24.0 |
| 58 | 19.6 | 58 | 23.2 |
| 59 | 18.9 | 59 | 22.4 |
| 60 | 18.2 | 60 | 21.7 |
| 61 | 17.5 | 61 | 21.0 |
| 62 | 16.9 | 62 | 20.3 |
| 63 | 16.2 | 63 | 19.6 |
| 64 | 15.6 | 64 | 18.9 |
| 65 | 15.0 | 65 | 18.2 |
| 66 | 14.4 | 66 | 17.5 |
| 67 | 13.8 | 67 | 16.9 |
| 68 | 13.2 | 68 | 16.2 |
| 69 | 12.6 | 69 | 15.6 |
| 70 | 12.1 | 70 | 15.0 |
| 71 | 11.6 | 71 | 14.4 |

## SPECIAL RULE

The tax treatment outlined on the preceding pages applies to more than 90% of the teachers who retire. For some teachers, however, the law prescribes a SPECIAL RULE.

The Special Rule must be used by those whose total retirement allowance receivable during the three years beginning on the date of the receipt of the first check is equal to or greater than the INVESTMENT in the CONTRACT. The careful reader will recall that the term "Investment in the Contract" refers to the sum of these two amounts:

(a) The teacher's contributions during his teaching years, and

(b) The city's contributions to provide the teacher's pension for his service prior to 1939.

The RULE followed by these teachers is this: All amounts received as retirement income shall be excluded from gross income until the amounts so excluded shall equal the "Investment in the Contract." Thereafter, *all retirement income* shall be included in gross income.

*Example*: Miss B retired September 1, 1963. Her annual retirement allowance was $7,200. The total of her contributions was $17,000. The city's contributions toward the pension for the period before 1939 amounted to $4,000. Hence, the "Investment in the Contract" was $21,000.

Clearly, during the first three years of Miss B's retirement, she will be entitled to receive 3 times $7,200, or $21,600. This sum, $21,600, is greater than the Investment in the Contract which is only $21,000. Hence Miss B must use the Special Tax Rule.

In 1963 she received four monthly checks amounting to $2,400; this sum was tax-free and excluded from her gross income. Similarly, her retirement allowance for 1964 and 1965, and for the first seven months of 1966 will also be tax-free because she will not have received $21,000 in retirement income until the month of August 1966. After August 1, 1966, all her retirement income must be included in gross income.

## RETIREMENT INCOME CREDIT

There are hundreds of retired teachers (and other taxpayers) who neglect to claim a RETIREMENT INCOME CREDIT on Form 1040 when they file their federal tax returns.

The term, RETIREMENT INCOME, as defined in the tax law, includes more than income from pensions and annuities. However, in this brief discussion, we shall confine the explanation to the tax credit that is available to teachers who receive a retirement allowance from a PUBLIC RETIREMENT system.

"Retirement Income Credit" is intended primarily to reduce the tax for those who receive retirement income but who are entitled to relatively little or to no Social Security payments.

The MAXIMUM Social Security payable to an individual is $127 monthly or $1,524 annually. The retired teacher who receives Social Security payments of $1,524 yearly is NOT eligible for any retirement income credit. The MAXIMUM retirement income credit available to any individual is 20% of $1,524—that is, $304.80. To be eligible for this maximum credit, the retired teacher must meet these conditions:

(a) His annual taxable retirement allowance must be at least $1,524;

(b) He must receive NO Social Security; and

(c) His wages or salary for the tax year must not exceed $900 if his age is less than 62; if his age is between 62 and 72, his wages or salary must not exceed $1,200. This condition (c) does not apply to one who has reached age 72.

If a retired teacher does NOT meet the above conditions, he may still be entitled to a RETIREMENT INCOME CREDIT—but not to the maximum amount of $304.80.

These two illustrations may clarify the situation:

*Example 1*: Miss F retired in 1961 at age 58. Her annual retirement allowance was $4,000, of which $3,200 was subject to tax. She worked occasionally as a substitute teacher and earned $800 during the tax year. She was clearly not eligible to receive Social Security payments. During 1963, she filed her federal tax return for 1962. Her initial tax was $500 for the year. However, because she received no Social Security and her salary during the year did not exceed $900, she was entitled to the maximum retirement credit of 20% of $1,524, or $304.80. Hence her final tax was only $195.20—the difference between $500 and $304.80.

*Example 2*: Mr. M retired January 2, 1962. His annual retirement allowance was $5,000 of which $3,700 was taxable income. His additional earnings during the year were less than $1,200. During 1962 he received Social Security payments amounting to $1,150. His initial tax for 1962 was $600. He calculated his retirement income credit as follows:

| | |
|---|---|
| Maximum amount of retirement income for credit computation | $1524 |
| Less amount received as Social Security in the tax year | 1150 |
| Balance | $ 374 |

Retirement Income Credit is 20% of $374, or $74.80.

Hence M's final tax was the difference between his initial tax of $600 and the Retirement Income Credit of $74.80—that is, $525.20.

*Note*: In the new tax law of 1964, the 20% rate used in connection with retirement income credit has been reduced to 15%.

## DISABILITY RETIREMENT AND TAXES

A teacher who retires for disability may exclude his retirement allowance from his taxable income until he reaches "retirement age" —generally accepted as *age 65* by Internal Revenue offices. In preparing his federal income tax return (Form 1040), on the line for wages, salaries, etc., he enters the amount of his retirement allowance as "Disability Income from the Teachers' Retirement System of New York City." On the line for "Sick Pay," he enters the full amount of his disability income.

When the teacher who retires for disability reaches age 65 ("retirement age"), he is expected to pay a tax on a part of his retirement allowance. For the calculation of this tax, it is advisable to consult the Internal Revenue Service or an expert in both taxes and pensions.

## INCOME TAX ON PAYMENTS TO BENEFICIARY

We shall now turn our attention to the rules governing the determination of the income tax on the benefits paid to the beneficiary of a teacher who dies, either before or after his retirement.

Benefits received from a public retirement system by the beneficiaries of employees in New York State who die before or after retirement are exempt from New York State income taxes. The discussion below refers only to federal income taxes.

## TAX ON BENEFITS PAID WHEN TEACHER DIES IN SERVICE

The taxable portion of the lump sum paid to a beneficiary when a teacher dies in service, either before or after he is eligible to retire, is determined as follows:

From the total amount payable to the beneficiary,* subtract the sum of (1) the total contributions of the teacher, without interest; (2) the contributions of the city prior to 1939; and (3) the special death benefit of $5,000 authorized by the tax law. The difference is taxed as a long-term capital gain in the year in which the payment is received.

*Example*: Mr. L died in service in March 1963. His wife subsequently filed a claim at the Retirement Office for the lump sum benefit of $36,000† due her.

Mr. L's contributions, without interest, amounted to $18,000 and the city's contributions prior to 1939 were $3,500.

The taxable portion of the lump sum paid to Mrs. L is determined as follows:

* The amount payable to the beneficiary when the teacher dies *before* he is eligible to retire is the sum of the teacher's accumulated contributions and death benefit. When the teacher dies in service *after* he is eligible to retire, the amount payable to the beneficiary is almost invariably the benefit under Option I. (See Chapter 19.)

† Interest is added to the principal amount due the beneficiary from the date of filing of the claim to the date of payment. The interest is taxed as ordinary income.

| | | |
|---|---|---|
| Lump sum paid to Mrs. L | | $36,000 |
| Deduct: | | |
| Mr. L's contributions (without interest) | $18,000 | |
| City's contributions prior to 1939 | 3,500 | |
| Death Benefit exclusion | 5,000 | |
| Portion of Mrs. L's benefit not subject to tax | | 26,500 |
| Amount taxable as a long-term capital gain | | $ 9,500 |

If the beneficiary receives the benefit in the form of an annuity under Option A or B, the tax treatment is similar to the method used to determine the tax on the retirement allowance of a retired teacher. This was described earlier in this chapter.

## TAX ON BENEFITS PAID WHEN TEACHER DIES AFTER RETIREMENT

We shall now consider the tax on the benefits paid to a beneficiary of a teacher who dies after retirement.

The taxable portion of the lump sum received by the beneficiary under Option I, IV-b or IV-c is determined in a manner similar to that explained above in connection with death in service. The procedure is as follows:

From the total amount of the lump sum received by the beneficiary, subtract the sum of (1) the unrecovered part of the investment in the contract* and (2) the death benefit exclusion of $5,000. The difference is taxed as a long-term capital gain in the year in which the payment is received.

*Example*: Mr. C retired choosing Option IV-b for $20,000. His retirement allowance was $5,600 per year. The taxable portion of this allowance was $4,200. His contributions, without interest, amounted to $21,000 and the city's contributions prior to 1939 were $4,000. He died 8 years after the date he retired.

The taxable portion of the lump sum of $20,000 paid to the beneficiary under Option IV-b is determined as follows:

* The Investment in the Contract is the sum of the teacher's contributions (without interest) and the city's contributions toward the teacher's pension for his service prior to 1939. During each year of his retirement, the teacher recovers *tax-free* a portion of his investment in the contract. The "unrecovered part of the investment in the contract" is the excess of the investment in the contract over the total amount thereof recovered, tax-free, by the teacher from the date of his retirement to the date of his death.

First, find the unrecovered portion of the investment in the contract. Mr. C's contributions, without interest, amounted to $21,000 and the city's contributions prior to 1939 were $4,000. The sum of these two amounts, $25,000, is the investment in the contract.

Each year of his retirement, Mr. C received, tax-free, the difference between his retirement allowance of $5,600 and the taxable portion, $4,200. The difference, $1,400, multiplied by 8 is $11,200; this is the total amount recovered, tax-free, by Mr. C during the eight years of his retirement. To obtain the unrecovered part of the investment in the contract, we subtract the total amount recovered, tax-free, namely $11,200, from the investment in the contract, $25,000. Hence, the unrecovered part of the investment in the contract is $13,800.

The sum of the unrecovered part of the investment in the contract and the death benefit exclusion of $5,000 is $18,800. The taxable portion of the lump sum benefit paid to the beneficiary is $20,000 less $18,800, or $1,200. This amount is taxed as a long-term capital gain.

The same procedure is used in the case of a lump sum benefit payable to a beneficiary under Option I or IV-c.

In the case of Option II or III or IV-a, where the beneficiary receives an annuity, instead of a lump sum, the method of arriving at the taxable portion of the annuity received each year is the same as that used to determine the taxable portion of the retired teacher's retirement allowance during the years of his retirement. The taxable portion of the annuity received during the taxable year is taxed as ordinary income.

If a beneficiary finds it too difficult to calculate the taxable portion of the lump sum or the annuity that he receives as a result of the death of a teacher, he should secure the assistance of the Internal Revenue office or of a recognized authority on pensions and taxes.

## TAXES ON LONG-TERM CAPITAL GAINS

Reference has been made to taxes on long-term capital gains. The question naturally arises: How do we calculate the tax on long-term capital gains? The law provides two methods: (a) the *Regular* method and (b) the *Alternative* method.

Under the *regular* method, the taxpayer adds one-half of the long-term capital gain to his other taxable income for the tax year; he then calculates the tax on the total amount in accordance with the usual tax rules.

Under the *alternative* method, the taxpayer first calculates the tax on his taxable income, exclusive of the long-term capital gain; to this tax, he adds one-fourth of the capital gain. The sum is the total tax.

The law permits the taxpayer to choose either of these methods. He should try both methods and then use the method that results in a smaller tax. When very large sums are involved, the alternative method will generally be more favorable to the taxpayer.

Two illustrations will be given:

*Example 1*: A has a normal taxable income of $6,000 after all deductions and exemptions. In the same tax year, A also has a long-term capital gain of $20,000. A files an individual return. Calculate the tax.

We shall first try the regular method.

| | |
|---|---|
| (a) A's normal taxable income | $ 6000 |
| (b) One-half of capital gain of $20,000 | 10000 |
| (c) Total taxable income | $16000 |
| (d) Tax on $16,000 | $ 5200 |

We now try the alternative method.

| | |
|---|---|
| (a) Tax on normal income of $6,000 | $ 1360 |
| (b) One-fourth of capital gain of $20,000 | 5000 |
| (c) Total tax: sum of (a) and (b) | $ 6360 |

Clearly the regular method results in a smaller tax and will be the method used by A when he prepares his tax return.

*Example 2*: B has a normal taxable income of $12,000 after all deductions and exemptions. In the same tax year, B also has a long-term capital gain of $40,000. B files an individual return. Calculate the tax.

We try first the regular method.

| | |
|---|---|
| (a) B's normal taxable income | $12000 |
| (b) One-half of capital gain of $40,000 | 20000 |
| (c) Total taxable income | $32000 |
| (d) Tax on $32,000 | $14460 |

Now try the alternative method.

| | |
|---|---|
| (a) Tax on normal income of $12,000 | $ 3400 |
| (b) One-fourth of capital gain of $40,000 | 10000 |
| (c) Total tax: sum of (a) and (b) | $13400 |

Clearly, in this situation, the alternative method results in a lower tax.

## ESTATE TAXES

Property transferred by a deceased person to beneficiaries is generally subject to ESTATE taxes, both under Federal law and New York law.

In the brief explanation that follows, our primary concern is the tax on funds payable by the New York City Teachers' Retirement System to beneficiaries of teachers who die—either before retirement or after retirement.

We begin with two important principles:

1. Money paid to beneficiaries from the ANNUITY fund of the deceased is subject to ESTATE taxes (both Federal and State).
2. Money paid to beneficiaries from funds contributed by the city is excluded from the estate—unless the money is payable to the "ESTATE."

*Example 1*: Miss J, a teacher in the public schools, died before she was eligible for service retirement. Her ANNUITY fund, at the time of her death, amounted to $18,000; the city's death benefit was $10,000. Miss J's mother was the beneficiary for both benefits. What part of these sums was subject to an ESTATE tax? A re-reading of the two principles above will show that the death benefit of $10,000 is excluded from the estate; only the ANNUITY fund of $18,000 is subject to ESTATE taxes.

*Example 2*: Given the same facts except that Miss J had designated her "estate" as beneficiary. In this case, the entire sum of $28,000 would be subject to ESTATE taxes.

*Example 3*: Mrs. F was eligible for service retirement; unfortunately she died before she even filed an application for retirement. F had designated her daughters as beneficiaries under Option I. Under the "Death Gamble" law of 1961, the daughters received the full benefit of Option I, namely, the ANNUITY fund of $25,000 and the PENSION reserve of $35,000—a total of $60,000. How much was subject to estate taxes? Clearly, the City's Pension reserve was excluded from the ESTATE. Only the ANNUITY fund of $25,000 was subject to ESTATE taxes.

*Example 4*: Mr. M retired and chose Option III for both the pension and annuity. He designated his wife, W, as beneficiary. His reduced retirement allowance was $5,000 yearly, consisting of a pension of $3,000 and an annuity of $2,000. When M died, his wife was entitled to an annual allowance of $2,500, consisting of a pension of $1,500 and an annuity of $1,000. What amount was subject to estate taxes?

Clearly the annual pension payable to W for life came from city funds and hence was excluded from the estate. The annuity of $1,000 payable for life came from the deceased teacher's annuity fund and therefore is subject to estate taxes. What is the value of this life annuity?

The answer to this question can be obtained from the Teachers' Retirement Office. In this example the widow was 72 years old when her husband died. The annuity of $1,000 for a woman, age 72, has a present value of $7,724. This amount becomes a part of the taxable estate.

## DEDUCTIONS FROM GROSS ESTATE

Both the federal and New York State laws allow certain deductions from the GROSS estate. The most common DEDUCTIONS are these:

1. Funeral expenses
2. Expenditures in the administration of the estate
3. Valid claims against the estate
4. Taxes
5. Losses

## THE MARITAL DEDUCTION

In addition to the above deductions that are made from the GROSS estate, a MARITAL deduction is available under both federal and State laws to the SPOUSE of a deceased husband or wife. Generally, the MARITAL deduction is half of the decedent's "adjusted gross estate." The "adjusted gross estate" is the entire value of the decedent's gross estate less the aggregate amount of the deductions allowed for expenses, indebtedness, taxes, and losses.

*Example:* Suppose the value of a decedent's gross estate is $200,000 and the aggregate amount of the allowable deductions is $30,000. The value of the adjusted gross estate is therefore $170,000. The allowable marital deduction is limited to $85,000 (half of $170,000).

## THE FEDERAL EXEMPTION

The federal law allows an EXEMPTION of $60,000 for the entire estate. Under federal law (unlike New York State law), this EXEMPTION is permitted even where a SPOUSE has taken a marital deduction.

*Illustration*: Assume that in the example above, the entire estate was left to the spouse of the deceased. After the initial deductions of $30,000 and the marital deduction of $85,000, the taxable estate to the spouse was reduced to $85,000. An exemption of $60,000 is now allowed to the estate. Hence only $25,000 is subject to a federal estate tax.

## NEW YORK STATE EXEMPTIONS

The State law concerning EXEMPTIONS is entirely different from the Federal law.

First, a spouse who has chosen a marital deduction is NOT allowed to take an exemption. If she has NOT taken a MARITAL deduction, she may claim an EXEMPTION up to $20,000.

Second, only those related to the deceased may claim an exemption. The beneficiaries described below may each claim an exemption of $5,000:

(a) Children and other lineal descendants of deceased;
(b) Parents and other ancestors of the deceased;
(c) Brothers or sisters of the deceased;
(d) The spouse of a son or of a daughter of the deceased;
(e) An adopted child or a step-child or a lineal descendant of an adopted child or of a stepchild.

## FEDERAL TAX ON NET ESTATE

After our discussion of allowable deductions and exemptions, the patient reader will naturally ask: "What is the tax on the NET *estate*?" First we shall give the federal tax rates:

Here are the federal tax rates when the NET taxable ESTATE does not exceed $100,000:

(a) For a net estate of less than $5,000, the rate is 3% of the net estate.

(b) For a net estate between $5,000 and $10,000, the tax is $150 plus 7% of the excess over $5,000.

(c) For a net estate between $10,000 and $20,000, the tax is $500 plus 11% of the excess over $10,000.

(d) For a net estate between $20,000 and $30,000, the tax is $1,600 plus 14% of the excess over $20,000.

(e) For a net estate between $30,000 and $40,000, the tax is $3,000 plus 18% of the excess over $30,000.

(f) For a net estate between $40,00 and $50,000, the tax is $4,800 plus 22% of the excess over $40,000.

(g) For a net estate between $50,000 and $60,000, the tax is $7,000 plus 25% of the excess over $50,000.

(h) For a net estate between $60,000 and $100,000, the tax is $9,500 plus 28% of the excess over $60,000.

## NEW YORK TAX ON NET ESTATE

The New York State tax rates on the NET ESTATE, after the applicable deductions and exemptions, are as follows:

(a) If the net estate does not exceed $2,000, there is no estate tax.

(b) If the net estate is more than $2,000 and not more than $50,000, the tax is 2% of the net estate.

(c) If the net estate is more than $50,000 and not more than $150,000, the tax is $1,000 plus 3% of the excess over $50,000.

(d) If the net estate is more than $150,000 and not more than $300,000, the tax is $4,000 plus 4% of the excess over $150,000.

Then the tax rate continues to accelerate.

*Example*: Mrs. F, a widow, left a gross estate of $80,000 to her three daughters. The deduction for funeral and other allowable expenses was $10,000. At this point the gross estate was reduced to $70,000—both under New York law and under federal law.

I. In New York, each daughter was allowed an exemption of $5,000. Hence the taxable estate in New York was $55,000 ($70,000-$15,000). According to the State tax schedule, line (c), the tax was $1,000 plus 3% of $5,000—a total tax of $1,150.

II. Let us now consider the federal tax. After the allowable deductions, the estate was reduced to $70,000. The federal law allows an exemption of $60,000 on the estate. This leaves the net taxable amount of $10,000. In the federal tax schedule given above, we find that the federal estate tax on $10,000 is $500.

## CHAPTER 27

# CONCLUDING REMARKS

1. Every newly appointed teacher files at the Teachers' Retirement Office a designation of beneficiary to receive the death benefit and the accumulated contributions in the event of his death before he becomes eligible to retire. The teacher is advised to review his beneficiary designations periodically. A new designation should be filed if the teacher's marital status changes or if any other important change affecting his choice of beneficiary occurs. A later designation *always* supersedes an earlier one.

2. It is recommended that every teacher, who has completed ten or more years of city service, file Option I at the Retirement Office. He should keep Option I on file at the Retirement Office until he applies for retirement. At that time, he may change Option I to any other option or to retirement on maximum allowance. He should occasionally review his designation of beneficiaries under the option. Whenever a situation arises which warrants a change of beneficiary, the teacher should file a new Option I form. The latest Option I on file *always* supersedes those filed previously.

3. If a teacher applies for service retirement under an option other than Option I, it is recommended that he file his retirement application at the Retirement Office not earlier than two or three business days before the date of his retirement. If, however, a teacher applies for service retirement under Option I, he may, without risk to himself or his beneficiaries, file his application at any time within three months prior to the date of his retirement. It must be kept in mind that the application for service retirement must reach the Retirement Office at least one day before the date of retirement.

4. It is advisable for every teacher with twenty or more years of service to inquire, in writing, of the Teachers' Retirement Office on what date he will become (or became) eligible for service retirement and how much service he will have (or had) completed prior

to that date. The teacher should retain the reply to this inquiry in his pension file.

5. Every teacher is urged to keep a well-organized pension file (or envelope) containing the following documents:

- a. Prior Service Certificate.
- b. Annual statements of amount in Annuity Savings Fund.
- c. Stubs of checks from Board of Education.
- d. Copies of "Designation of Beneficiary," "Option I" and all other official forms filed at the Retirement Office.
- e. Communications from the Actuary or other officials of the Retirement System.
- f. Copies of letters sent by the teacher to the Retirement Office.

6. The following information should be clearly indicated on the cover of the pension file:

- a. Name of teacher
- b. Contributor number
- c. Date of birth
- d. Date of appointment to the School System
- e. Current home address
- f. Current school

7. The teacher is advised to inform his beneficiary or next of kin where the pension file is located. The beneficiary should be instructed that, in the event of the teacher's death, the Retirement Office should be notified to that effect in writing. The beneficiary will receive a Claimant's Statement from the Retirement Office. This statement, together with a transcript of the Death Certificate, should be filed at the Retirement Office as soon as possible.

8. Every teacher should keep himself thoroughly informed about latest developments in pensions, social security and taxes so that he may be in a position to make decisions which are in the best interest of himself and his family.

## A FINAL NOTE

The teacher who is eligible for service retirement should view with suspicion those pension services which state that the teacher can take his maximum retirement allowance and yet provide for his family.

If a teacher retires on maximum allowance, upon his death *no payments can be made to anyone* by the Retirement System. This teacher can make provision for his family only through the purchase of outside insurance or the accumulation of savings, mutual funds or other investments. While any one or more of these alternatives may be worthy of serious consideration by the younger teacher, they are generally unrealistic, and therefore unwise, for the teacher who is approaching retirement. Can it be that some of those who recommend that the teacher choose maximum retirement and provide for his family through one of these alternative plans are chiefly interested in selling insurance or securities?

A teacher who needs help in solving his pension problems will serve himself and his family best by consulting a well-known, reputable pension authority.