



Teachers' Retirement System
of the State of Kentucky
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TRS 4 Retirement Options

General Information

Selecting an Annuity Option

Annuity Option Descriptions

Supplemental Benefit Distribution Options

Beneficiary's Documents

Changing Annuity Option

Changing Beneficiaries

General Information

This bulletin is for members in TRS 4 who entered TRS on or after Jan. 1, 2022. Members who entered before Jan. 1, 2022, should refer to a separate bulletin.

Members will need to make decisions regarding the foundational benefit, which provides a lifetime annuity, and the supplemental benefit, which is a savings component that can provide additional retirement income in various forms.

Supplemental benefit options include annuitization or taking a direct payment either at retirement or later. All or a portion of the supplemental benefit may be annuitized along with the foundational benefit at retirement. If the supplemental is being annuitized, different options and beneficiaries may be selected. If a member previously retired but kept any portion of the supplemental benefit intact at TRS, a separate application must be filed at any time the member wishes to take a subsequent distribution of the supplemental benefit.

Selecting an Annuity Option

Selecting an annuity option is important because, in most cases, the decision is permanent. The option needs to be the one that best meets a member's future financial needs because an annuity often is a major source of income for the rest of a retiree's life. Different annuity options can be chosen for the foundational and supplemental benefits. TRS staff is available to provide information about the various retirement options, but the decision must be made by the member.

Some options provide a survivor annuity that will provide a lifetime monthly payment to the designated beneficiary after death. To provide a lifetime annuity for a beneficiary after death, a joint-survivor option must be chosen on the retirement application. This joint-survivor annuity should not be confused with preretirement survivor benefits that are payable to eligible survivors upon the death of an active contributing member. The beneficiary of a joint-survivor option does not have to be related to the retiree, but the age and relationship of the beneficiary along with the option chosen affect the amount of an annuity. In limited circumstances, described later in separate sections, a retiree may be able to change the annuity option or beneficiaries.

Annuity Option Descriptions

Option I: Straight Life Annuity with Refundable Balance — The straight life annuity provides the greatest monthly payment in retirement, but the payments cease upon death. No survivor annuity is payable to a beneficiary. Upon death, a refund of any remaining account balance will be made to the member's beneficiary or estate.

Option II: Years Certain — This option provides a monthly lifetime annuity that is somewhat smaller than Option I, but assures if a member dies within a certain period of years from retirement that the beneficiary will receive the annuity for the remainder of that period, which can be five, 10, 15 or 20 years. For example, under a 10-year Option II, if the member dies within the first 10 years of retirement (for example, at year eight), the beneficiary would receive the same monthly annuity that the member received until the expiration of the 10 years (under the example, two years). If the member survives beyond the 10 years, the beneficiary would receive nothing after the member's death.

Option III: Joint-Survivor Annuity — This option allows a beneficiary, if still living at the member's death, to succeed the member in receiving the monthly annuity for the rest of the beneficiary's life. However, the annuity is reduced depending in part on the age difference between the member and the beneficiary.

The only reason a retired member can change to an Option I is in the event of divorce, annulment or marriage dissolution if the ex-spouse was named as beneficiary. This change is subject to the requirements outlined in the section on changing an annuity option.

Under Option III, an IRS regulation may reduce the annuity a beneficiary can receive if a beneficiary other than the spouse is selected. This typically is noted on retirement estimates but contact TRS to determine whether this IRS regulation would apply.

Option III(a): Joint-Survivor Annuity with "Pop-Up" — This option is the same as Option III except that if the beneficiary dies before the member, the annuity will increase to the Option I amount. If the retired member remarries after the beneficiary's death, the retiree may change to a joint-survivor option to provide a survivor annuity to the new spouse. The change would be subject to the requirements outlined in the section on changing an annuity option.

Under Option III(a), an IRS regulation may reduce the annuity a beneficiary can receive if a beneficiary other than the spouse is chosen. This typically is noted on retirement estimates but contact TRS to determine whether this IRS regulation would apply.

Option IV: Joint-Survivor Annuity with Half to Beneficiary — This option allows a beneficiary, if still living at the member's death, to receive half the monthly annuity for the rest of the beneficiary's life. Because the beneficiary receives a smaller benefit, the annuity for the retiree is more than Option III while still reduced from the Option I amount. The age of the beneficiary in part impacts the annuity amount.

The only reason a retired member can change to an Option I is in the event of divorce, annulment or marriage dissolution if the ex-spouse was named as beneficiary. This change would be subject to the requirements outlined in the section on changing an annuity option.

Option IV(a): Joint-Survivor Annuity with Half to Beneficiary or "Pop-Up" — This option allows a beneficiary, if still living at the member's death, to receive half the monthly annuity for the rest of the beneficiary's life. Or, if the beneficiary dies before the member, the annuity increases to the Option I amount. If the retired member remarries after the death of the beneficiary, a change to a joint-survivor option to provide a survivor annuity to the new spouse is allowed. This change would be subject to the requirements outlined in the section on changing an annuity option.

Option V: Other Payment — Option V allows a member to create an alternative option and designate as beneficiary any person(s) having an insurable interest in the member's life. An actuary determines what the equivalent value to Option I would be, and then that must be approved by the board. Beyond the normal application deadlines, TRS requires three months' notice in advance of retirement for the actuary to certify that the proposed Option V is equivalent to an Option I. This applies regardless of whether an account is being distributed at retirement or later if the supplemental benefit is taken later. Contact TRS for more information.

Supplemental Benefit Distribution Options

A distribution of the supplemental benefit can be the entire balance or a part of the balance, with the remainder continuing to earn interest and being available for subsequent distributions later in a retiree's life.

Regardless of the amount of the supplemental benefit balance being distributed, three types of options are provided for the distributions. The supplemental benefit, or a portion of it, can be annuitized to provide payments to the member throughout retirement. The supplemental benefit also can be distributed through a one-time payment that is a direct payment to the member, a rollover into another qualified plan or a combination. The third type is a combination of the annuity and one-time payment options.

Annuity: The balance of a member's supplemental benefit, or a portion of it, can be annuitized using one of the annuity options described previously. The minimum amount that can be annuitized is the greater of \$10,000 or 10% of the balance. A COLA may be incorporated into a supplemental benefit annuity that is funded using part of the account balance.

One-time payment

Rollover: The balance of the supplemental benefit, or a portion of it, can be rolled over into another tax-deferred plan with no amount withheld for taxes. Additional details are provided on the TRS website.

Direct to member: The balance of the supplemental benefit, or a portion of it, can be paid directly to the member subject to tax withholding. TRS must withhold at least 20% for federal taxes. A direct payment to the member may be eligible for deposit into a tax-deferred plan. Consult the special tax notice for tax implications. Additional details also are provided on the TRS website.

Combination: The supplemental benefit may be distributed using any combination of the distribution options described in this section on a percentage basis (for example, 10% direct payment to the retiree, 20% rollover to a qualified plan and 70% to an annuity with monthly payments to the retiree). If a combination is chosen the minimum amount that can be annuitized is the greater of \$10,000 or 10% of the balance.

Beneficiary's Documents

An official, government certified birth certificate and signed Social Security card of a beneficiary is required if any joint-survivor annuity is selected.

Changing Annuity Option

Retirees *may* be able to change retirement options if a qualifying event is experienced:

- Marriage or remarriage after retirement;
- The beneficiary dies;
- The retiree's marriage ends by divorce, annulment or dissolution and the ex-spouse was the named beneficiary. This qualifying event is effective on the first day that a court order is entered terminating the marriage.

If a qualifying event is experienced and the retiree is eligible to change options, the retiree has 60 days from the date of the event to make the change. In addition to the appropriate TRS form, copies of documentation that a qualified event has occurred, such as an order of the court terminating the marriage or a certificate of marriage or death, must be filed with TRS.

Designating a new beneficiary under a joint-survivor annuity reduces a monthly payment, but it provides a benefit to the new beneficiary after the retiree's death. The reduction depends in part on the beneficiary's age.

Anyone who has a qualifying event should contact TRS immediately for further details because of the 60-day deadline for changing an option.

Changing Beneficiaries

Under certain conditions, even without a qualifying event, members may be eligible to change retirement beneficiaries after retirement.

With options I or II, beneficiaries may be changed after retirement, but limitations on the benefits available to beneficiaries under those options still apply.

With options III, III(a), IV or IV(a), a beneficiary may be changed only if the member experiences a qualifying event as described in the previous changing options section.

Regardless of retirement option, all retirees may change life insurance beneficiaries at any time and beneficiaries on any refundable balance in the event of a retiree's death.

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This is general information. The law prevails if it conflicts with this publication. Contact TRS prior to making retirement decisions.