

# **Retiring Wisely**

*What you need to know  
before you retire*

*A guide from the  
IFT Retirees Chapter*



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# Retiring? Making an informed decision

**M**aking the decision to retire from your career can be both exciting and confusing. Many questions may arise about your retirement income and health insurance. *How much money will I need to live comfortably? How much will my pension be? Will I have adequate medical coverage when I need it?*

While considering retirement may raise a lot of questions, the answers are available. That is the purpose of this guide.

The information here was provided by the Illinois Federation of Teachers Retirees' Chapter, an organization of retired teachers and other school professionals who have asked the same questions about retirement that you may be asking right now. "What *You* Should Know About Retirement..." attempts to answer these questions based on facts and personal experiences.

The IFT Retirees' Chapter wants to make sure that you have all the information you need about retirement. A list of resources at the back of this book will help answer any additional questions you may have about retiring from your profession.

So take a look at the information in this handbook. When you decide to retire, you will be armed with the knowledge you need to avoid any unpleasant surprises

**Disclaimer:** *The information and suggestions in this booklet are provided by a variety of sources, including members of the IFT Retirees Chapter. These members claim no authority or expertise regarding the information herein. Before making any decisions regarding your retirement, check with TRS, Social Security, your accountant, and your attorney to determine what options are best for your situation. Individual situations vary greatly, so examples provided within may not apply in every case.*



# The ABC's of retirement

**T**he world of teacher retirement is filled with enough abbreviations to make your head spin. Before you can understand much of the information in this guide, you'll need to learn the common acronyms used when referring to various aspects of retirement for teachers. This section will help you learn those acronyms quickly and easily.

## **Teachers' Retirement System - TRS**

The system established by the Illinois Legislature in 1939 to administer the pension plan for Illinois certified public school personnel outside the city of Chicago. The system provides its members with retirement, disability, and survivor benefits.

## **Central Management Services - CMS**

The agency that manages all Teachers' Retirement System medical plans.

## **Teachers' Retirement Insurance Program - TRIP**

The name that refers to **all** of the medical insurance plans available under the Teachers' Retirement System.

## **Teachers' Choice Health Plan - TCHP**

One of the medical insurance options available under the Teachers' Retirement Insurance Program. The TCHP plan is a traditional major medical plan and allows you to choose your own health care providers.

## **Health Maintenance Organization - HMO**

One of the medical insurance options available under the Teachers' Retirement Insurance Program. HMO plans are managed care and offer a limited choice of health care providers.

## **Point of Service - POS**

One of the medical insurance options available under the Teachers' Retirement Insurance Program. The POS plan is primarily managed care, but also offers provisions for treatment by physicians outside the HMO network.

## **Primary Care Physician - PCP**

For participants in the HMO plan, your primary care physician is your main doctor and must provide all referrals to other physicians, when necessary.

## **Preferred Provider Organization - PPO**

A group of physicians and hospitals that provide medical care at discounted rates.



# Pre-retirement planning

If you are still a few years away from retiring, you should know that there are many options available to you to save for retirement. There are benefits and drawbacks to all of them, so be sure to consult a financial advisor for the best choices for you.

One of the most important things you can do now is to tax-shelter your savings. Here are some of the smart ways to do that.

## **Individual Retirement Accounts (IRAs)**

Beginning in 2002, up to \$3,000 a year may be sheltered from taxation in a conventional IRA. The interest, dividends, and/or capital gains that are accrued are also sheltered. You may invest your IRA in a variety of ways. The allowable amount that you can shelter increased to \$4,000 in 2005 and will go up to \$5,000 in 2008. IRAs are not subject to debt payment in bankruptcy, nor are pension payments.

Roth IRAs will have these same limits. Because contributions to Roth IRAs are made after taxes, they shelter only the accruals, not the principal.

## **Tax-deferred Annuities (also called Tax-Sheltered Annuities or 403bs)**

Many retirees are unaware that they have the ability to save for retirement with a higher yearly maximum contribution than with an IRA by opening tax-sheltered annuities, or 403bs. Unlike the IRA, in which contributions must be made annually or before April 15 of the following year ("use it or lose it"), with 403bs it is possible to save beyond the annual limit if you have previous years during which full contributions were not made. Investigate this potential.

The maximum contribution for 403bs in 2002 was \$11,000. It was increased to \$1,000 per year until 2006. As of January 1, 2002, if you were 50 years or older you could contribute an additional \$1,000 above the



cap for the current year and each year thereafter until 2006. After 2006 these annual amounts will continue to increase automatically based on the increase in the consumer price index.

Both IRAs and 403bs have penalties for early withdrawal before age 59 1/2 unless these withdrawals are for such things as early retirement, disability, certain home purchases, etc. Be sure to check before you withdraw.

IRAs, 403bs and other tax-deferred retirement accounts also specify that **mandatory withdrawals must begin to be made before April 1st of the year following the date that you turn age 70 1/2.** There is no maximum limit on withdrawals.

Failure to withdraw the minimum amount each year can result in a tax penalty of 50 percent of the amount that should have been withdrawn. (This does not apply in the case of Roth IRAs).

“Minimum Required Distributions (MRDs)” are now calculated under a new formula. To determine your MRD, divide the balance of your account at the end of the previous year by the figure listed next to the account holder’s age (see below). For example, a 75-year-old with \$100,000 in an account at the end of 2006 would divide \$100,000 by 22.9. The MRD for 2007 would be \$4,366.81.

<u>Age / Divisor</u>		<u>Age / Divisor</u>	
70	27.4	78	20.3
71	26.5	79	19.5
72	25.6	80	18.7
73	24.7	81	17.9
74	23.8	82	17.1
75	22.9	83	16.3
76	22	84	15.5
77	21.2	85	14.8



<u>Age / Divisor</u>		<u>Age / Divisor</u>	
86	14.1	96	8.1
87	13.4	97	7.6
88	12.7	98	7.1
89	12.0	99	6.7
90	11.4	100	6.3
91	10.8	101	5.9
92	10.2	105	4.5
93	9.6	110	3.1
94	9.1	115+	1.9
95	8.6		

An exception to this formula is made when the beneficiary of the account is a spouse more than 10 years younger than the account holder. Check IRS Publication 590 for this exception. You can find the form online at [www.irs.gov](http://www.irs.gov).

Although a person may delay the first MRD until April 1 of the year following age 70 1/2, the second MRD must be made before December 31 of that same year. To avoid the tax consequences of two MDRs in one calendar year, it may be advisable not to wait until April 1, but rather withdraw this money in the same year in which you turn 70 1/2.

*Special note:* Money deposited in a 403b before December 31, 1986, need not be withdrawn until age 75. However, if you roll over the 403b into an IRA, this advantage is lost. (Your annuity company has a record of your deposits before December 31, 1986.)

**Remember:** It is best to roll over any tax-deferred money directly from one shelter into another in order to avoid tax complications.



# Retiring under 2.2

## The early retirement option

**I**llinois educators may retire at age 55 with maximum benefits, thanks to an Illinois law often called “2.2.”

Maximum benefits = 75 percent of the average of the highest four consecutive years of your last 10 years’ earnings if they have 34 years of teaching experience (which can be 33 years plus one year of unused, uncompensated medical leave). These teachers will have to apply for the Early Retirement Option (ERO), but they are not required to pay the ERO contribution. They will have to pay the 2.2 upgrade.

Teachers who do not have the 34 years of teaching experience will have to pay the ERO contribution plus the 2.2 upgrade cost.

If you are already sheltering the maximum contribution to a 403b, you must make adjustments if you wish to shelter your ERO contribution. Also remember that if you are receiving a retirement incentive, your income may be changing greatly. You may use only pre-retirement income in calculating your 403b maximum. Also, check to make sure that you are having enough withholding deducted to pay federal income tax. There is a penalty for under-withholding.

**Maximum TRS benefits**  
=  
**75 percent of the average of the highest four consecutive years of your last 10 years’ earnings**



# Social Security

## What you need to know

**A**lthough teachers are not covered by Social Security, be aware that you may gain coverage through a spouse. About 80 percent of retired teachers receive Social Security and Medicare benefits through their own work outside the teaching profession or through a spouse. Even if widowed or divorced, a person can claim spousal coverage if the marriage lasted at least 10 years.

To receive Social Security coverage, you must have worked 40 quarters (10 years) under Social Security. Many teachers have earned these quarters through part-time work while in school, through military service, or summer employment. Find out your status. In 2007, you can earn a quarters credit for only \$1,000 in earnings. *(Note that earning \$4,000 during the year gives you four quarters of credit, even if you earned it in one calendar quarter.)*

Be aware that your Social Security benefits may be reduced when you receive your TRS pension. Generally as a TRS member, you will receive about 4/9 of your normal Social Security benefit, unless you have 20 or more years of “substantial earnings” under Social Security. However, your TRS pension is *not* reduced.

If you expect to receive Social Security benefits based on a spouse, that benefit will be reduced by the amount of your TRS pension, which is usually more than the entire Social Security benefit. Unless your TRS pension is minimal, do not expect to receive any spousal Social Security benefits. *However, there will be no reduction in Medicare benefits, either your own or through a spouse, because of your TRS pension.*

You should apply for Medicare benefits at least three months before you reach age 65. For more information about Social Security, call 1-800-772-1213 or visit your local office.



# Medical benefits under TRS

## The Teachers' Retirement Insurance Program

One of the most important things to understand about your TRS benefits are the various medical insurance options available to you under the Teachers' Retirement Insurance Program (TRIP). To be eligible for TRIP insurance, you need at least eight years of service with TRS.

You must know that you can only apply for TRIP medical insurance at four times:

- At the time of retirement;
- At the time an employer's (either yours or your spouse's) medical insurance is terminated by your employer;
- At age 65; and
- If you have never been enrolled in a TRS medical plan, you may enroll during the Benefit Choice Period, usually held May 1 to May 31 each year.

You should also be aware that if you have Medicare coverage, it is considered primary and TRIP is secondary. For TRS members who wish to insure their spouses and certain dependents under TRIP, you may do so at considerable additional cost. Research all your options before adding your spouse to TRIP. Remember that Medicare usually does not cover the costs of medical care out the U.S.. Check with Central Management Services to find out whether your type of TRIP does.

TRIP offers three different types of medical plans. When the time comes, be prepared to decide to choose from:

- The **Teachers' Choice Health Plan (TCHP)**, which is fee for service;
- A **Health Maintenance Organization (HMO)**, which is managed care; or
- A **Point of Service (POS)** plan, which combines some aspects of both managed care and fee for service.



