



## RETIREMENT

As a new teacher, one of the last things you may be thinking about is the day you end your career. However, as you may know, it is never too early to start planning. There are a couple of things you should know about your retirement benefits. The first is, teachers pay a portion of their salary into the retirement system, which is run by the Commonwealth of Massachusetts. Contributions are also made by the state through the state budget process.

The pension system for teachers is a defined benefit plan, which provides an annual amount of income based upon 3 basic factors: your age, your years of creditable service and your salary in your 3 highest consecutive years. Additional information is available from the Massachusetts Teachers Retirement Board website and the address is listed in the table at the end of this booklet.



## **ADDITIONAL RETIREMENT OPTIONS**

One other aspect you may wish to explore is certain pre-tax retirement vehicles that are available through the Town. A pre-tax vehicle, such as an annuity, permits you to contribute a portion of your earnings into an investment vehicle which grows tax deferred until you withdraw it later. The advantages are that your deductions are made on a pre-tax basis and then are taxed upon withdrawal, when you are often in a lower tax bracket. You may wish to explore the positive benefits of such a program as a way to supplement your retirement income.

## **ARE YOU NEW TO TEACHING BECAUSE OF A MID-CAREER CHANGE?**

Public workers in a number of states may face serious financial issues upon retirement if the state has not opted into the Social Security System. There are 2 aspects to federal law that can seriously impact public sector workers in Massachusetts.

The first is the Government Pension Offset (GPO), enacted in 1977. When a married worker has qualified for social security, through his/her work in the private sector, and their spouse is a public employee who can receive a public pension, the GPO reduces the survivors' benefit rate if the public employee works in jurisdiction that does not come under Social Security.

The GPO presently cuts the social security survivor benefits of a spouse by an amount equal to 2/3rds of the spouses' public pension. For example, take a widow/widower who is collecting a pension of \$2,400 per month. Their spouse, who has paid into social security throughout their work life, dies, and the survivor benefit, under social security, equals \$1,200 a month. If the surviving spouse is collecting a private pension, there would be no reduction in social security benefits under the law. However, because the living spouse is collecting a public pension from a state where public workers do not participate in social security, (such as Massachusetts) the \$1,200 is reduced by 2/3rds of \$2,400, which is \$1,600, so that the survivor gets \$0. If the survivor is the spouse who worked in the private sector, and the public employee chose, for example, Option B, they can collect the full pension survivor benefit as well as their social security.

The Windfall Elimination Provision (WEP) impacts public workers who also have earned, through work in the private sector, social security benefits by modifying the formula used to calculate social security payments. Benefits are computed using percentages of monthly average earnings of the worker, broken down in 3 categories, which are multiplied by percentages to calculate benefits. After 1990, upon reaching 62, the benefits rate would normally multiply the first \$592 of average monthly earnings by 90%. However, if you have 20 or fewer years of substantial earnings, that figure is reduced to 40%. The difference is \$296 per month. If the worker has between 21 and 29 years of substantial earnings, the reduction is 45-85%, and if the worker has 30 or more years of substantial earnings where the employee paid social security taxes, the amount is not reduced. Each year has a specified dollar figure, in order to ascertain substantial earnings, and in 2005, the figure was \$16,725. This means that many public employees who have second jobs in the private sector will not have sufficient earnings to avoid the offset, and face having their benefits decreased by over \$3,500 per year.

This information is brought to your attention in order to inform you of the possible impact of federal legislation in terms of your potential retirement benefits.

