

Retirement Options Simplification

Retirement Options Analysis

Staff conducted an Option comparison analysis using retiree data to determine if a member selected the most beneficial Option based on their outcome after retirement. Staff analyzed the following data:

- Retirement date
- Option selected
- Member death date
- Beneficiary death date

Members electing Unmodified Allowance or Option 1, on average, take 10.71 years to deplete their contributions on account. Members electing Option 4- “2W and 1” or Option 4- “3W and 1,” on average, take 12 years to deplete their contributions on account. Staff used these timeframes to determine the beneficial outcomes for Unmodified Allowance, Option 1, Option 4- “2W and 1,” and Option 4- “3W and 1.”

Staff compared the following Options, defining “Beneficial Outcome” for each Option as:

Option	Beneficial Outcome
Unmodified Allowance-	Member lives past 10 years after retirement date
Option 1-	Member lives fewer than 10 years after retirement date
Option 2-	Beneficiary predeceases Member
Option 2W-	Member predeceases Beneficiary
Option 4- 2W and 1 combined-	Both Member and Beneficiary live fewer than 12 years after retirement date
Option 3-	Beneficiary predeceases Member
Option 3W-	Member predeceases Beneficiary
Option 4- 3W and 1 combined-	Both Member and Beneficiary live fewer than 12 years after retirement date

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Retirement Options Simplification, Continued

Unmodified Allowance and Option 1

Members electing Unmodified Allowance assume they will outlive their contributions on account. Members electing Option 1 assume they will not outlive their contributions on account, leaving the remaining contributions to a beneficiary.

The following table compares outcomes for the specified Options:

Benefit Option	Elected Options (1990-2013)	Number of Known Outcomes ¹	Number of Members living beyond 10 years after Retirement Date ²	Number of Members living fewer than 10 years after Retirement Date ³
Unmodified	99,518	62,094	55,458 (89.31%)	6,636 (10.69%)
Option 1	121,741	75,031	65,577 (87.40%)	9,454 (12.6%)

The majority of members electing the Unmodified Allowance and Option 1 live beyond 10.71 years after their retirement date. Based on this data, the Unmodified Allowance was the better Option for this population.

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¹ The known outcome group consists only of cases where at least 10 years have passed since the member's retirement date.

² Members electing Unmodified Allowance or Option 1, on average, take 10.71 years to deplete their contributions on account. Members electing Option 4- "2W and 1" or "3W and 1," on average, take 12 years to deplete their contributions on account.

³ Members electing Unmodified Allowance or Option 1, on average, take 10.71 years to deplete their contributions on account. Members electing Option 4- "2W and 1" or "3W and 1," on average, take 12 years to deplete their contributions on account.

Retirement Options Simplification, Continued

Options 2, 2W, 4- “2W and 1”

Members electing Option 2 assume they will outlive their beneficiary. Option 2 increases a member’s monthly benefit amount to the Unmodified Allowance if their beneficiary predeceases them.

Members electing Option 2W assume their beneficiary will outlive them. Option 2W provides a slightly higher benefit amount than Option 2, but does not increase the benefit amount to the Unmodified Allowance upon their beneficiary’s death.

Members electing Option 4- “2W and 1” assume they and their beneficiary will live fewer than 12 years after their retirement date. Option 4- “2W and 1” provides a secondary beneficiary any remaining contributions on account upon their and their beneficiary’s death.

The following table compares outcomes for the specified Options:

Benefit Option	Elected Options (1990-2013)	Number of Known Outcomes ⁴	Beneficiary Pre-deceases Member	Member Pre-deceases Beneficiary	Both Member and Beneficiary live fewer than 12 years after retirement ⁵
Option 2	76,566	15,183	4,639 (30.55%)	10,544 (69.45%)	1.5%
Option 2W	75,892	13,516	2,485 (18.39%)	11,031 (81.61%)	1.5%
Option 2W+1	46,688	7,525			69 (.92%)

Most members electing Option 2 and Option 2W predecease their beneficiary. For Option 2, Option 2W, and Option 4- “2W and 1,” less than 1 percent of outcomes resulted in both the member and beneficiary living fewer than 12 years after retirement. Based on this data, Option 2W was the better Option for this population.

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⁴ The known outcome group consists only of cases where member, beneficiary, or both are deceased.

⁵ Members electing Unmodified Allowance or Option 1, on average, take 10.71 years to deplete their contributions on account. Members electing Option 4- “2W and 1” or “3W and 1,” on average, take 12 years to deplete their contributions on account.

Retirement Options Simplification, Continued

Options 3, 3W, 4- “3W and 1” Members electing Option 3 assume they will outlive their beneficiary. Option 3 increases a member’s monthly benefit amount to the Unmodified Allowance if their beneficiary predeceases them.

Members electing Option 3W assume their beneficiary will outlive them. Option 3W provides a slightly higher benefit amount than Option 3, but does not increase the benefit amount to the Unmodified Allowance upon their beneficiary’s death.

Members electing Option 4- “3W and 1” assume they and their beneficiary will live fewer than 12 years after their retirement date. Option 4- “3W and 1” provides a secondary beneficiary any remaining contributions on account upon their and their beneficiary’s death.

The following table compares outcomes for the specified Options:

Benefit Option	Elected Options (1990-2013)	Number of Known Outcomes ⁶	Beneficiary Pre-deceases Member	Member Pre-deceases Beneficiary	Both Member and Beneficiary live fewer than 12 years after retirement ⁷
Option 3	31,508	4,253	1,648 (38.75%)	2,605 (61.25%)	1.5%
Option 3W	19,250	2,060	570 (27.67%)	1,490 (72.33%)	1.5%
Option 3W+1	8,724	984			6 (.61%)

Most members electing Option 3 and Option 3W predecease their beneficiary. For Option 3, Option 3W, and Option 4- “3W and 1,” less than 1% of outcomes resulted in both the member and beneficiary living fewer than 12 years after retirement. Based on this data, Option 3W was the better Option for this population.

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⁶ The known outcome group consists only of cases where member, beneficiary, or both are deceased.

⁷ Members electing Unmodified Allowance or Option 1, on average, take 10.71 years to deplete their contributions on account. Members electing Option 4- “2W and 1” or “3W and 1,” on average, take 12 years to deplete their contributions on account.

Retirement Options Simplification, Continued

Pension Reduction Amounts by Option

The Actuarial Office (ACTO) provided calculations for each Option's benefit allowance amount based on a member's age, beneficiary's age, unmodified allowance, and contributions on account. Staff used retiree data to create a profile of the average retiree:

- Average retiree age: 60
- Average Beneficiary age: 55
- Average Unmodified Allowance: \$3,000
- Average Contributions on account: \$100,000

Based on the above profile and actuarial calculations, staff estimate that the average retiree would receive the following benefit under each Option:

Unmodified	1	2	2W	2W+1	3	3W	3W+1
\$3,000	\$2,939	\$2,532	\$2,565	\$2,563	\$2,748	\$2,766	\$2,763
Reduction:	-\$61	-\$468	-\$435	-\$437	-\$252	-\$234	-\$237

Members who do not have a beneficiary or need the maximum benefit amount would likely choose the Unmodified Allowance. Option 1 provides the second highest benefit amount and allows members to provide their beneficiaries any remaining contributions on account. Option 1 costs the member \$61 per month over 10 years to provide a lump sum payment to their beneficiary. If the member lives longer than 10 years, the member will lose approximately \$7,320 over that 10 year period and will not have any contributions remaining on account to leave to his or her beneficiary. The member will lose \$732 per year every year beyond year 10.

Options 2 and 2W provide a lifetime monthly benefit to the member and beneficiary. Option 2 provides the member a smaller monthly benefit amount. If the beneficiary predeceases the member, however, Option 2 increases the member's monthly benefit amount to the Unmodified Allowance, whereas, Option 2W's amount remains the same. Members need to consider the likelihood they will outlive their beneficiaries when choosing between Option 2 and Option 2W. If a member chooses Option 2 and predeceases their beneficiary, then the member paid \$33 per month to receive the pop-up to the Unmodified Allowance that he or she will never receive and provides his or her beneficiary with a smaller continuing monthly benefit than Option 2W.

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Retirement Options Simplification, Continued

**Pension
Reduction
Amounts by
Option,
continued**

Options 3 and 3W provide a lifetime monthly benefit to the member and beneficiary. Option 3 provides the member a smaller monthly benefit amount. If the beneficiary predeceases the member, however, Option 3 increases the member's monthly benefit amount to the Unmodified Allowance, whereas, Option 3W's amount remains the same. Members need to consider the likelihood they will outlive their beneficiaries when choosing between Option 3 and Option 3W. If a member chooses Option 3 and predeceases their beneficiary, then the member paid \$18 per month to receive the pop-up to the Unmodified Allowance that he or she will never receive and provides his or her beneficiary with a smaller continuing monthly benefit than Option 3W.
