



Initial Benefit Option

Introduction

The Initial Benefit Option (IBO) became effective January 1, 1996. The benefit will pay a retiree, at the time of retirement, a lump-sum payment. The retiree chooses the dollar amount to be paid, up to an equivalent of 36 months of the maximum retirement benefit. All future monthly benefits are reduced based on the member's age at retirement and the amount received initially.

Eligibility

Any member who retires under "regular retirement" rules may select IBO. In accordance with Act 267-LSA La. R.S.27.2723.C (effective June 1, 2001), members who participate in the DROP, Disability, or early retirement cannot select the IBO. An IBO recipient cannot choose Retirement Option 1.

Filing an Application

IBO is part of the retirement application process. IBO can be selected in the appropriate section on the Application for Retirement with Initial Benefit Option Form 6-1A (or 6-1B).

The member has several decisions to make before the IBO can be calculated.

- 1) The retiree must decide whether to receive an actuarially¹ valued lump-sum payment for unused leave, or use the converted service credit to increase monthly benefits. For more information on unused leave see LASERS fact sheet concerning *Unused Sick and Annual Leave*.
- 2) The retiree must choose a "retirement" option. Option 1 under Regular Retirement is not available if the IBO is chosen.
- 3) The retiree chooses to receive part of the lifetime retirement benefit in a lump-sum payment (the IBO). The IBO lump sum cannot exceed an amount equal to 36 months of the maximum monthly retirement benefit. The retiree may elect to receive

the maximum lump sum amount or any lesser amount.

How do you calculate the IBO?

Here's an example: The Maximum Option monthly retirement benefit for a 52 year old "Regular Plan" member is calculated as follows:

30 years of service credit \times 2.5% accrual factor \times \$30,000 average compensation = \$22,500.00. Then divide this annual amount by 12 to determine the maximum monthly benefit of \$1,875.

If the member chooses the IBO, the member could receive at the time of retirement a maximum lump sum payment of up to 36 times \$1,875 or \$67,500.

To find the approximate monthly cost of the one-time payment, the member uses the chart below to find his or her age and the corresponding cost per \$1,000 of \$7.73.

The approximate monthly cost to withdraw \$67,500 would be \$7.73 times 67 or \$517.91.

The \$517.91 would be subtracted from the \$1,875 monthly maximum benefit to determine the actuarially reduced monthly benefit. Therefore, \$1,875 minus \$517.91 equals \$1,357.09. The member's new lifetime maximum monthly benefit would be \$1,357.09 if he withdrew \$67,500.

Selection of retirement Option 1, 2A, 2B, 3, 4A or 4B will result in a lower monthly lifetime retirement benefit.

Note: If the member has service that is not classified as "Regular Plan" service, the retirement formula for the other type of service is used for this calculation.

See page 2 of the Initial Benefit Option Fact Sheet for Age and Cost per \$1,000.00 Chart.

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Age and Approximate Cost per \$1,000.00 Chart
(Chart changes periodically)

20 – 6.71	34 – 6.91	48 – 7.46	62 – 8.92	76 – 13.22
21 – 6.72	35 – 6.93	49 – 7.52	63 – 9.10	77 – 13.73
22 -- 6.73	36 – 6.96	50 – 7.59	64 – 9.30	78 – 14.27
23 – 6.74	37 – 6.99	51 – 7.66	65 – 9.50	79 – 14.85
24 – 6.75	38 – 7.01	52 – 7.73	66 – 9.73	80 – 15.47
25 – 6.76	39 – 7.05	53 – 7.82	67 – 9.98	81 – 16.13
26 – 6.77	40 – 7.08	54 – 7.90	68 – 10.24	82 – 16.83
27 – 6.78	41 -- 7.12	55 – 8.00	69 – 10.52	83 – 17.58
28 – 6.80	42 – 7.16	56 – 8.10	70 – 10.83	84 – 18.38
29 – 6.81	43 – 7.20	57 – 8.21	71 – 11.15	85 – 19.23
30 – 6.83	44 – 7.24	58 – 8.33	72 – 11.51	86 – 20.16
31 – 6.85	45 -- 7.29	59 – 8.46	73 – 11.89	87 – 21.16
32 – 6.87	46 – 7.34	60 – 8.60	74 – 12.30	88 – 22.25
33 – 6.89	47 -- 7.40	61 – 8.76	75 – 12.74	89 – 23.42

Payment Options

The retiree may choose one of the following payment options:

1. The retiree can receive the initial benefit payment in a lump sum minus 20 percent federal withholding. If the retiree is under age 55 at retirement, the payment will be subject to an early withdrawal penalty (10 percent) by the IRS.
2. The initial benefit payment can be deposited in an interest-bearing account with LASERS. For this option, federal withholding is done at the time of a withdrawal from the account. The IBO account becomes eligible to earn interest from the day it is set up. The interest earnings and withdrawals are the same as for DROP accounts.
3. The initial benefit payment can be directly rolled over into another qualifying tax annuity plan or an IRA (Individual Retirement Account). Federal income tax is not withheld at the time of a direct roll over.
- 4) The retiree may also choose to participate in the Self-Directed Plan (SDP). Log onto LASERS website for more Self-Directed Plan information (www.lasersonline.org/SelfDirectedPlan).

LASERS policy is to issue an initial benefit payment after all reports are received from the agency. This usually occurs after the retiree has received four monthly benefit checks. Initial Benefit Option payments are disbursed on the 6th of each month.

FOOTNOTES

¹Actuary--a mathematician who studies and evaluates future probabilities and their financial impact by applying probability and statistical theory. Actuaries calculate pension and annuity rates based on risk factors obtained from experience tables. The Actuary values the benefit payments based on the retiree's age at the time of retirement.

²Average Compensation (often referred to as "average compensation")--the average earned compensation received during 36 highest months of successive employment, or the highest joined months of compensation if interruption of service occurred.

³Regular Service--the service performed as a "regular" employee. Regular employees pay 7.5 percent of earned compensation as employee contributions.

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