BACKDROP PROVISION
Members of the MSEP and the MSEP 2000 may be eligible to elect the Deferred Retirement Option Provision (BackDROP) at retirement. This is an option for you to receive a lump-sum payment at retirement in addition to your monthly benefit.

Eligibility Requirements
To be eligible for the BackDROP, you must work in a MOSERS benefit-eligible position at least two years beyond your normal retirement eligibility date.

BackDROP Date
You may elect the BackDROP date used to calculate your retirement benefit, giving you the opportunity to maximize your monthly benefit payment or lump-sum amount. The BackDROP date you choose must meet both of the following requirements.

- Be on or after the date you were first eligible for normal (unreduced) retirement benefits.
- Be within the five year period immediately prior to your actual retirement date.

BackDROP Period
The BackDROP period is the length of time between your BackDROP date and your actual retirement date. You may elect a BackDROP period (in one-year increments) ranging from one year to the total amount of time worked after normal retirement eligibility (maximum of five years).

BackDROP Benefit Calculation
If you elect the BackDROP, we will first calculate your monthly pension benefit using your final average pay (FAP) and cost-of-living adjustments (COLAs), and then calculate your BackDROP benefit payment or lump-sum amount.

Cost of Living Adjustments
Federal law requires MOSERS to adjust the cost of living for your retirement benefit. We will calculate the percentage increase in the average consumer price index (CPI) for medical care and use that increase to calculate your BackDROP benefit payment or lump-sum amount.

EXAMPLE
You worked at least two years beyond your normal retirement date and have now chosen to retire.

Your BackDROP lump sum will be calculated based on 80% of what you would have received in pension benefits during the BackDROP period, using your FAP and credited service as of the BackDROP date.

BackDROP Distribution
If you elect the BackDROP, you will choose how you would like to receive your BackDROP distribution from one of the payment options below.

Cash Option
We will pay this distribution directly to you in one lump-sum payment at retirement or in three annual installments (one with your first monthly benefit payment and one each of the following two years thereafter).

- Three annual installments are available only to members electing the cash option.
- Delaying receipt through the three installment option does not increase the amount — that is, you will not receive interest on the second or third payments.
- The BackDROP distribution is considered taxable income for the year in which you receive the payment unless you roll it over to a traditional IRA or another eligible employer plan. MOSERS is required to withhold 20% of the taxable portion of a cash distribution for federal income tax.
- If you receive a cash payment before you reach age 59½ and do not roll it over, you may have to pay an IRS penalty equal to 10% of the taxable portion of the payment in addition to the regular income tax.

Rollover Option
This distribution will be paid directly to an individual retirement arrangement, or if you choose, to another qualified employer plan that will accept your rollover, such as MO Deferred Comp.

- Your payment will not be taxed in the year of the rollover and no income tax will be withheld unless it is a rollover to a Roth IRA. Otherwise, the payment will be taxed when you take it out of the traditional IRA or the new eligible employer plan.
BackDROP Distribution

This distribution allows you to specify the amount to be paid to a traditional IRA or another eligible employer plan with the remainder paid to you in a lump sum.

- The BackDROP distribution is considered taxable income for the year in which you receive the payment. MOSERS is required to withhold 20% of the taxable portion of a cash distribution for federal income tax.
- If you receive a cash payment before you reach age 59½ and do not roll it over, you may have to pay an IRS penalty equal to 10% of the taxable portion of the payment in addition to the regular income tax.

Review our Special Tax Notice brochure, available at www.mosers.org, for details on eligible rollover distributions from MOSERS. We recommend you contact a tax consultant or financial advisor before electing a payment option.

BackDROP Estimate

The following example illustrates how four key elements (credited service, final average pay, total monthly benefit, and the lump-sum payment) will vary based on your BackDROP election. The example reflects the benefit for a member electing the Life Income Annuity benefit payment option in the MSEP 2000. If a joint and survivor option or guaranteed payment option is chosen, the monthly benefit would be reduced accordingly.

<table>
<thead>
<tr>
<th>Period</th>
<th>Credit Service</th>
<th>Final Average Pay</th>
<th>Total Monthly Benefit</th>
<th>Lump-Sum Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Year</td>
<td>26 Years</td>
<td>$4,676.45</td>
<td>$2,102.21</td>
<td>$22,523.49</td>
</tr>
<tr>
<td>2-Year</td>
<td>25 Years</td>
<td>$4,675.31</td>
<td>$2,041.28</td>
<td>$43,136.17</td>
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<tr>
<td>3-Year</td>
<td>24 Years</td>
<td>$4,644.39</td>
<td>$1,948.52</td>
<td>$61,640.89</td>
</tr>
<tr>
<td>4-Year</td>
<td>23 Years</td>
<td>$4,513.35</td>
<td>$1,838.20</td>
<td>$77,210.06</td>
</tr>
<tr>
<td>5-Year</td>
<td>22 Years</td>
<td>$4,311.14</td>
<td>$1,699.19</td>
<td>$88,784.75</td>
</tr>
</tbody>
</table>

Annual Installments Calculation

- Lump-Sum Payment: $100,662.05
- 3 Installments: $33,554.02
- Lump-Sum Payment: $33,554.02
- Tax Withholding (20%): $6,710.80
- Lump-Sum Payment After Taxes: $26,843.22

Applying for the BackDROP

You are not required to take any action related to the BackDROP until you retire. Simply keep working in a MOSERS benefit-eligible position for at least two more years. You are also not required to elect the BackDROP, regardless of how long you work beyond normal retirement eligibility – that decision is up to you.

If you qualify for the BackDROP, MOSERS will list the option on your Retirement Election Form during the retirement process. This is where you will make your BackDROP and benefit payment option elections.

We will provide benefit estimates with your election form and they will include information you need to help you complete your election form. One will provide estimates of your monthly retirement benefit with the BackDROP, and the other will estimate your monthly retirement benefit without the BackDROP.

MOSERS’ online Comparison Calculator is an interactive tool designed for members to compare how the dollar value of various retirement benefit payment options adds up over time. Find it on our website.

BackDROP Distribution Calculation

Finally, using the cash payment option, we will calculate your lump-sum payment.

One Time Lump-Sum Payment Calculation

- Total Benefits Accrued: $111,846.72
- Distribution Percentage: 90%
- Total Lump-Sum Payment: $100,662.05
- Lump-Sum Payment After Taxes: $80,529.64

Annual Installments Calculation

- Lump-Sum Payment: $33,554.02
- 3 Installments: $33,554.02
- Tax Withholding (20%): $6,710.80
- Lump-Sum Payment After Taxes: $26,843.22

* May be subject to an additional 10% IRS penalty on the distribution for the year you receive a cash payment, based on your age at the time of your separation from service. See Special Tax Notice brochure for list of exceptions.

This brochure contains a summary of the BackDROP provisions for active general state employees of the MSEP and the MSEP 2000. This information does not amend or overrule any applicable statute of administrative rule. In the event of conflict, the applicable statute or administrative rule will prevail.

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Visit MOSERS’ website for the most current version of this publication.

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