Participating in BackDROP
If you are a member of MSEP or MSEP 2000, you may be eligible for BackDROP when you apply for retirement. BackDROP allows you to defer receipt of your retirement benefits while continuing employment with the state of Missouri. Simply work a minimum of two years beyond your normal retirement date to receive a lump-sum payment in addition to a lifetime monthly pension benefit. Generally, your monthly benefit payments will be lower if you elect BackDROP. You may be able to increase your monthly payment by not electing BackDROP or decreasing your BackDROP period.

You do not need to make any decisions about BackDROP until you apply for retirement. At that time, you will elect your BackDROP period: a minimum of one year, up to a maximum of five years. This is the period of time for which you elect to receive a lump-sum payment of 90% of what you would have received in pension benefits if you had been retired. This includes any temporary benefit (which stops at age 62), cost-of-living adjustments (COLAs), potential outside service, and other benefit increases (if applicable). The amount of your monthly payment will be based on the benefit you would have received had you left employment and retired on an earlier date (your BackDROP date). Below is an example of how BackDROP works.

Three-Year BackDROP Example

**Normal Retirement Date**
The date you become eligible to receive pension benefits from MOSERS.

You must work a minimum of 2 years beyond your Normal Retirement Date to be eligible to elect a BackDROP.

**BackDROP Date**
The date you wish to exchange the remainder of your Credited Service toward a lump-sum.

Increase or decrease your lump-sum payment by moving your BackDROP Date, which will extend or shorten your BackDROP Period.

**Actual Retirement Date**
The date you begin to receive pension benefits from MOSERS.

Payments made on the last working day of each month.

You will elect your BackDROP Period (minimum of 1 year and maximum of 5 years) when you apply for retirement.

**BackDROP Period**
The period of time you elect to receive a lump-sum payment of 90% of what you would have received in pension benefits had you been retired.

**Final Average Pay x Multiplier x Credited Service = Monthly Pension Benefit**

Increase or decrease your monthly pension benefit by moving your BackDROP Date, which extends or shortens the years of Credited Service used to calculate your monthly pension benefit.
Making Your BackDROP Election
During the retirement process, you will receive a Retirement Election Form from MOSERS. If you qualify, the form will indicate that BackDROP is available to you. **You are not required to elect BackDROP**, regardless of how long you work beyond normal retirement eligibility – that decision is up to you.

To assist you in completing your Retirement Election Form, you will receive estimates of your monthly pension benefit with and without BackDROP. Additionally, the following useful resources, available on our website at www.mosers.org, may assist you with your decision.

- **Comparison Calculator** – Use this interactive tool to compare your retirement benefit over time, with and without BackDROP, or with different BackDROP periods (2-5 years).
- **BackDROP Video** – Watch this brief video for an explanation of how BackDROP works.
- **Rumor Central Blog** – Follow this blog to find answers to many questions about BackDROP and other retirement topics.

Choosing a Lump-Sum Payment Option
On your Retirement Election Form you will elect how to receive your lump-sum distribution from among the following options.

- **Rollover Option** – Roll over the entire amount of your refund to a qualified retirement plan.
- **Combination Cash & Rollover Option** – Roll over a specified amount to a qualified retirement plan and receive the remaining amount as a lump-sum payment.
- **Cash Option** – Elect to receive the entire amount in a lump-sum payment.

We will issue your BackDROP payment (cash or rollover) on the last working day of the month in which you retire, along with your first monthly pension benefit payment.

### Example Calculations

**Monthly Pension Benefit**
Your monthly pension benefit will be calculated using your final average pay (FAP) and creditable service as of the BackDROP date you elect.

**Assumptions**
- Retirement Plan: MSEP 2000
- Benefit Payment Option: Life Income Annuity
- BackDROP Period: 3 Years
- Current Annual COLA Rate: 1.450 (80% of the percentage increase in the average CPI)

**Monthly Base Benefit with BackDROP**
- Final Average Pay: $2,270.67
- Years & Full Months Credited Service: 26.5
- Multiplier: .017
- Monthly Base Benefit: $1,022.94

* Does not include any service credit or pay (including pay increases, overtime, etc) during BackDROP period.

**Monthly Temporary Benefit**
- Final Average Pay: $2,270.67
- Years & Full Months Credited Service: 26.5
- Multiplier: .008
- Monthly Temporary Benefit: $481.38

**Total Monthly Benefit (until age 62)**
- Monthly Base Benefit: $1,022.94
- Monthly Temporary Benefit: $481.38
- Total Monthly Benefit: $1,540.32

**BackDROP Distribution**
To determine your lump-sum payment, we first calculate the total benefits you would have received during the BackDROP period had you been retired. As noted in the assumptions, the BackDROP period for this example is three years.

<table>
<thead>
<tr>
<th>BackDROP Period</th>
<th>Benefit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monthly</td>
<td>Annual</td>
</tr>
<tr>
<td>1 Year</td>
<td>$1,540.32</td>
<td>$18,483.84</td>
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<tr>
<td>2 Year</td>
<td>1,562.65</td>
<td>18,751.80</td>
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<tr>
<td>3 Year</td>
<td>1,585.31</td>
<td>19,023.72</td>
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<tr>
<td>Total Benefits*</td>
<td>$56,259.36</td>
<td></td>
</tr>
</tbody>
</table>

*Includes any temporary benefit, COLAs, impact of purchased/transferred outside service credit, and any other applicable benefit increases.

**Lump-Sum Payment**
Your one-time lump-sum payment will equal 90% of the total benefits you would have received during your BackDROP Period.

- Total Benefits: $56,259.36
- Distribution Percentage (90): .90
- Lump-Sum Payment: $50,633.42

**Tax Withholding for Cash Payment**
- Lump-Sum Payment: $50,633.42
- Tax Withholding (20%): $10,126.68
- Lump-Sum Payment After Taxes*: $40,506.74

*See Important Tax Information below.

**Important Tax Information**
The BackDROP distribution is considered taxable income for the year in which you receive payment. MOSERS is required to withhold 20% of the taxable portion for federal income tax. You are responsible for any state, local, or other additional taxes. If you are younger than 59½, a 10% early distribution tax penalty may apply. Additionally, federal tax rules may prohibit the rollover of the ENTIRE lump-sum balance. MOSERS will automatically calculate and issue the IRS “required minimum distribution” of cash directly to you, if applicable.

The Special Tax Notice, available at www.mosers.org, explains the payment options and tax consequences in detail. We recommend you contact a tax consultant or financial advisor before electing a payment option.

To learn more about the tax advantages of rolling the lump sum over to a qualified employer plan, like MO Deferred Comp, read Thinking About the BackDROP? www.modeferredcomp.org