

RETIREMENT INFORMATION

The transition into retirement can be overwhelming. As your retirement date approaches, it is best to start planning for that date a few months in advance. A common question among active members of the Fund is: "What is the best time of the month to retire?" The answer is: "The last day of the month is normally the best day to retire because we do not pay partial month annuities." The first step would be to request an estimate from the Retirement Fund. At this point, you should also verify that the Retirement Fund has all the required documents in your file.

The following documents will be required when applying for retirement benefits:

- Original birth certificate for employee
- Original birth certificate for spouse
- Original birth certificate for children
- Marriage certificate if you are currently married
- Divorce decree or death certificate of spouse if you are divorced or widowed (from all marriages)
- Copy of your Medicare card (and of your spouse if eligible)

Once you have received your estimate and are certain that you will move forward with the retirement, it is suggested that you call Human Resources Department regarding deferred compensation counseling, separation pay, COBRA dental, and conversion of life insurance.

You should contact the Retirement Fund in advance for an appointment so that the Benefits Section could prepare the retirement application forms before you come in to retire. In order to process the retirement benefit, the following forms will need to be completed:

- Application for Retirement Annuity: The application has to be completed, signed and notarized.
- No Spouse Affidavit: If the employee is unmarried at the time of retirement, all contributions for spouse's annuity will be refunded with 3% interest compounded annually. The no spouse affidavit will have to be completed and notarized.
- No Spouse Refund Application: If the employee is unmarried at the time of retirement, then this form will have to be completed. It is important that the member reads this form carefully and reviews the tax information before completing the application. There are additional tax consequences for employees who are receiving a no spouse refund and are under age 55.
- Designation of Beneficiary: Your designated beneficiary is anyone you choose. If you are married, state law establishes a surviving spouse's annuity benefit for your eligible spouse immediately after your death regardless of whether a beneficiary form is on file. However, if you do not have an eligible spouse or your spouse does not receive an annuity long enough to "collect back" all your contributions, the person(s) you designated as your beneficiary(ies) would receive any remaining contributions.
- Substitute W4-P Form: Benefits received from this Fund are subject to federal income tax withholding. The member will have to select a withholding option and sign the form.
- Signature Card: In order to verify your signature, the Fund collects your signature at retirement and we periodically request updates.
- Direct Deposit Authorization: This form has to be taken to the member's bank or savings institution at which they choose to have their monthly annuity direct deposited. We require the

member's signature on the top portion of the form, and we ask that the bank representative accurately completes the bottom portion of the form.

- Health Insurance Application: Currently MWRDGC offers Blue Cross Blue Shield of Illinois PPO and the HMO Illinois to their retirees. If the member selects the retiree group health insurance, the insurance application will need to be completed and signed.

Once these forms have been completed, the employee would meet with a Human Resources representative to sign the retirement papers. Once the employee retires with the HR Department, then the member is officially retired as of the chosen retirement date.

If you are retiring reciprocally, then you will need to contact the other Fund(s) and apply for retirement from those Funds. The retirement dates have to be the same in all Funds.

General Information as you start the process of retirement:

Separation Pay:

The separation pay is generally paid with the employee's last check. The District's Payroll Section calculates separation pay for employees who leave District service by retiring, resigning, or death. The only way the employee does NOT get the terminal leave is if he/she is discharged.

The separation check will include terminal leave, remaining earned vacation, accumulated sick leave, unused optional holiday pay, and any holiday or overtime earned.

- The District provides "termination pay" based upon the number of years the employee has worked at the District. The Terminal Leave Table (on the last page) lists the "number of days pay" the member will receive, to a maximum of 30 days pay for 20+ years worked. Please note the District counts service time differently than the Retirement Fund. The District counts calendar days, subtracting for lost time like a leave of absence, ordinary disability, or suspension.
- The District also pays the member for unused earned vacation time. The earned vacation schedule (listed on the last page) lists the number of hours the employee has earned determined by the number of complete pay periods worked, depending on how many weeks per year they are entitled to, and whether the employee works a seven hour or a eight hour day. Using more vacation than one has earned will result in a pension reduction because it will have a negative effect on the final average salary and more importantly it may reduce service credit towards retirement.
- Upon separation, the District pays half time for up to 120 days of unused sick leave the member accumulated. The District will pay the member one-third for all unused sick leave beyond 120 days.
- The District pays for holidays earned on shift that were not taken. Holidays earned only apply to employees who work a rotating shift.
- Likewise, the District pays for the three Optional Holidays. An employee is entitled to three Optional Holidays as long as he/she has work at some point during the year.
- The District also pays for overtime earned. Please note overtime earned is paid at time and a half.

The total separation pay will be equal to the total of all these components (terminal leave, remaining earned vacation, accumulated sick leave, unused optional holiday pay, any holiday or overtime earned). Unless the member tells Payroll otherwise, the District will deduct federal and state income tax deductions from the separation pay based on the information the member provided them on the W-4 form. In some cases even though this deduction for income taxes may seem large, the member may still be liable for a large tax payment at year end.

Federal Withholding Tax:

At the time of retirement, a W4P form will have to be filled out for federal withholding tax. Currently our retirees are exempt from State taxes in the State of Illinois. But if the member relocates to another state, the member will have to check with that state's Department of Revenue, which is typically located in the state capital.

Unfortunately, our computer programs do not update the federal withholding each year when the members receive a cost of living increase. Therefore, it is up to the member to contact our office for a new W4P form whenever they feel it is necessary to update the federal withholding tax taken from the annuity check.

Health Insurance:

All employees hired on or after July 1, 2005 must have 10 years of District service in order to be eligible for District retiree health benefits. The 10 year District service criteria also applies to reciprocal retirees whose final employer was not the District. For those retirees who elect not to enroll in the District's health plan at retirement (due to coverage under another active employee plan or that of a spouse's medical plan), will be permitted only one opportunity to enroll in the District's plan at a subsequent time.

For District retirees under age 65, the insurance coverage and the prescription plan under the retirement group are the same as the active employees' benefit coverage. New insurance cards will be issued to the retirees.

The District requires all retirees (and spouses) who turn age 65 and are eligible for Medicare, to enroll in Medicare Part A and Part B. In order to enroll or maintain enrollment in a District sponsored health insurance plan, all members must provide the Retirement Fund with either a copy of their Medicare card or a letter from the Social Security Administration (SSA) stating that they are ineligible for Medicare.

As a retiree who is eligible for Medicare, Medicare would become the primary insurance. Medicare Part A (Hospital Insurance) helps cover inpatient care in hospitals. It also helps cover a skilled nursing facility, hospice and home health care if certain conditions are met. Medicare Part B (Medical Insurance) helps cover medically necessary services like doctors' services and outpatient care.

Dental Insurance:

The dental insurance ends the last day of the month the employee retires. The member will receive COBRA information from the Human Resources Department within 2 to 3 weeks after retirement. The member is eligible for COBRA for 18 months.

Life Insurance:

Life insurance coverage also ends the last day of the month that the member retires. The member has the option of converting the insurance to a whole life policy. The Human Resources Department will send the member a form 2 to 3 weeks after retirement regarding this conversion.

Annuity Payment:

Annuity payments are paid on the first of every month for that month. You will receive your first check approximately one month after your retirement effective date. However, if you are retiring reciprocally, then your first annuity payment will be approximately 2+ months after your retirement effective date. Our bank assures us that funds directly deposited into retiree accounts will be

available via ATM on the first of the month. The timing of the deposit posting in the member's account ledger balance varies from bank-to-bank.

Cost of Living Adjustment (COLA):

Retirees and surviving spouses are entitled to receive an annual cost of living increase that is equal to 3% of the current monthly annuity. The annuitants will receive their COLA on the anniversary of the member's retirement.

Social Security Administration: Windfall Elimination Provision & Government Pension Offset:

During MWRD employment, no Social Security taxes (FICA) are deducted from your earnings. Because you are eligible for a government pension, your Social Security benefit may be reduced. If you would like additional information on the Windfall Elimination Provision and Government Pension Offset, please contact the Retirement Fund or the Social Security Administration at www.ssa.gov.

Terminal Leave Table	
Years of Service	Days of Pay
5.0	5.0
6.0	6.5
7.0	8.0
8.0	9.5
9.0	11.0
10.0	12.5
11.0	14.0
12.0	15.5
13.0	17.0
14.0	18.5
15.0	20.0
16.0	22.0
17.0	24.0
18.0	26.0
19.0	28.0
20.0 +	30.0

Earned Vacation Schedule								
Pay Period Earned	2 Weeks		3 Weeks <i>after 5 years</i>		4 Weeks <i>after 15 years</i>		5 Weeks <i>after 25 years</i>	
	7 hour day	8 hour day	7 hour day	8 hour day	7 hour day	8 hour day	7 hour day	8 hour day
	70 Hours	80 Hours	105 Hours	120 Hours	140 Hours	160 Hours	175 Hours	200 Hours
1	2.75	3.00	4.00	4.50	5.50	6.25	6.75	7.75
2	5.50	6.25	8.00	9.25	10.75	12.25	13.50	15.50
3	8.00	9.25	12.00	13.75	16.25	18.50	20.25	23.00
4	10.75	12.25	16.25	18.50	21.50	24.50	27.00	30.75
5	13.50	15.50	20.25	23.00	27.00	30.75	33.75	38.50
6	16.25	18.50	24.25	27.75	32.25	37.00	40.50	46.25
7	18.75	21.50	28.25	32.25	37.75	43.00	47.00	53.75
8	21.50	24.50	32.25	37.00	43.00	49.25	53.75	61.50
9	24.25	27.75	36.25	41.50	48.50	55.50	60.50	69.25
10	27.00	30.75	40.50	46.25	53.75	61.50	67.25	77.00
11	29.50	33.75	44.60	50.75	59.25	67.75	74.00	84.50
12	32.25	37.00	48.50	55.50	64.50	73.75	80.75	92.25
13	35.00	40.00	52.50	60.00	70.00	80.00	87.50	100.00
14	37.75	43.00	56.50	64.50	75.50	86.25	94.25	107.75
15	40.50	46.25	60.50	69.25	80.75	92.25	101.00	115.50
16	43.00	49.25	64.50	73.75	86.25	98.50	107.75	123.00
17	45.75	52.25	69.75	78.50	91.50	104.50	114.50	130.75
18	48.50	55.50	72.75	83.00	97.00	110.75	121.25	138.50
19	51.25	58.50	76.75	87.75	102.25	117.00	128.00	146.25
20	53.75	61.50	80.75	92.25	107.75	123.00	134.50	153.75
21	56.50	64.50	84.75	97.00	113.00	129.25	141.25	161.50
22	59.25	67.75	88.75	101.50	118.50	135.50	148.00	169.25
23	62.00	70.75	93.00	106.25	123.75	141.50	154.75	177.00
24	64.50	73.75	97.00	110.75	129.25	147.75	161.50	184.50
25	67.25	77.00	101.00	115.50	134.50	153.75	168.25	192.25
26	70.00	80.00	105.00	120.00	140.00	160.00	175.00	200.00

Social Security Administration: Windfall Elimination Provision & Government Pension Offset:

Windfall Elimination Provision (WEP):

During MWRD employment, no Social Security taxes (FICA) are deducted from your earnings. You may have paid Social Security taxes from other employment that provided you with 40 quarters of Social Security credit making you eligible for a Social Security benefit. Because you are eligible for a government pension, that Social Security benefit may be reduced by the WEP.

Before explaining when, how and why the WEP may affect your annuity, we would like to emphasize these points:

- WEP affects the amount of your Social Security benefit. It does not affect your MWRD annuity.
- The benefit amount quoted on the annual Social Security statement is probably not accurate because it does not reflect reduction for the WEP.
- The Social Security Publications referenced below are available from the Social Security website, SSA.gov, or from your local Social Security office.

When does the WEP apply? The WEP may apply if you first became eligible for a government pension after 1985 and if you have less than 30 years of “substantial” earnings under Social Security. A table of substantial earnings can be found on Social Security Publication No. 05-10045, *Windfall Elimination Provision*. This publication is recommended reading. It should be noted that a year of substantial earnings is a different (higher) amount than is required for four quarters of credits.

How does the WEP apply? The table below compares a Social Security benefit calculation under both “regular” and WEP scenarios. The description pertains to someone born in 1948. For all others, the method is the same, but the dollar figures in steps 4, 5, and 6 will vary as will the Social Security Full Retirement Age. For a full explanation of a regular calculation, refer to Social Security Publication No. 05-10070, *Your Retirement Benefit: How It is Figured*.

Step	Description	Regular	WEP
1	All earnings under Social Security are “indexed”, or multiplied by a number that would bring them to the equivalent of today’s earnings.	✓	✓
2	Pick the 35 highest years of indexed earnings from Step 1. If you do not have 35 years of earnings, use all years for which you paid Social Security taxes. Calculate the sum of these indexed earnings.	✓	✓
3	Calculate the monthly average of the sum from Step 2 by dividing by 420 (35 years x 12 months). The result is the AIME, Average Indexed Monthly Earnings.	✓	✓
4	Multiply the first \$761 of the AIME in Step 3 by 90%*	✓	*No
5	Multiply the amount in Step 3 over \$761 and less than or equal to \$4,586 by 32%	✓	✓
6	Multiply the amount in Step 3 over \$4,586 by 15%	✓	✓
7	Add the results from Steps 4, 5, and 6 and that is your Social Security benefit at age 66, full retirement age for someone born in 1948.	✓	✓

* At Step 4, under the WEP, the percentage varies from 40% for those with 20 years or less of substantial earnings to 85% for those with 29 years of substantial earnings. The percentage increases 5% for each year of substantial earnings. In summary, the most that your Social Security benefit could be reduced is \$380.50, representing the difference between 90% of \$761 and 40% of \$761.

Why does the WEP apply? Social Security is a social program. Lower-paid workers could get a Social Security benefit equal to about 55% of their pre-retirement earnings, but the replacement rate for highly-paid workers is about 25%. Because government workers have fewer years of Social Security earnings to average, their AIME is lower, resembling a lower-paid worker's AIME. Without the WEP, government workers had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a government pension, creating a windfall. Congress passed the WEP to remove the advantage.

If you have questions, you may contact Social Security at 1-800-772-1213. You may also visit their website, ssa.gov. If you click on "Retirement," and from that screen, click the link "Calculate Your Benefit," you may use their online calculator to estimate your Social Security benefit as calculated under the WEP.

Government Pension Offset (GPO):

If you qualify for Social Security benefits under your spouse's work record, you are entitled to the greater of the benefit under your own earnings record or 50% of the benefit under your spouse's earnings record. On the surface, this would seem like a good way to get a bigger Social Security benefit than your benefit after reduction for the WEP.

Unfortunately, it doesn't work that way. The GPO reduces the benefit payable to you under your spouse's work record. The GPO applies to the spousal benefits of a retiree receiving a government pension. The offset is 2/3rds of the amount of your government pension.

Assume a retiree gets \$3,000 MWRD Pension. His Social Security benefit with the Windfall Elimination Provision (WEP) reduction is \$400. The spouse's Social Security benefit is \$1,200.

The retiree can take either his WEP benefit (\$400) or half of the spouse's Social Security benefit minus the GPO.

WEP	vs.	Government Pension Offset	GPO
		Half of \$1,200 Spouse Benefit	\$600.
		<u>- 2/3 of \$3,000 MWRD Pension</u>	<u>-2,000.</u>
\$400	>	nothing	(\$1,400)

In this case, it is more beneficial for the retiree to take the benefit under his own record.

The Fund's staff is not experts regarding Social Security benefits. All questions pertaining to any Social Security benefit payable under your own or your spouse's work record should be addressed to the Social Security Administration at 1-800-772-1213.