INTRODUCTION
The Deferred Retirement Option Provision (BackDROP) is an option available at retirement to general state employees in the Missouri State Employees’ Plan (MSEP) and the Missouri State Employees’ Plan 2000 (MSEP 2000). This option provides a way for you to receive a lump sum payment at retirement in addition to your ongoing monthly benefit.

If you elect the BackDROP, the monthly benefit payable on your actual retirement date is based on the benefit you would have been receiving had you left employment and retired on an earlier date, referred to as the BackDROP date. In addition, you will receive a lump sum payment equal to 90% of the Life Income Annuity amount you would have received during the BackDROP period.

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

BackDROP PERIOD
The BackDROP period is the length of time between your BackDROP date and your actual retirement date. You may select 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).

Examples of BackDROP Periods
Assume you work 3 years and 8 months beyond normal retirement eligibility. You may elect a BackDROP period of 1 year, 2 years, 3 years, or the maximum of 3 years and 8 months.

BackDROP Period Options
Assume you work 6 years beyond normal retirement eligibility. You may elect a BackDROP period of 1 year, 2 years, 3 years, 4 years, or the maximum of 5 years.

BackDROP Period Options

APPLYING FOR THE BackDROP
No paperwork is required when you first become eligible for normal retirement. You simply keep working in a benefit eligible position for at least two more years. You are not required to take any action related to the BackDROP until you actually retire.

During the retirement process, you will receive a Retirement Election Form. You will make your BackDROP and benefit payment option elections on this form. Benefit estimates will be mailed with 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. These benefit estimates will provide the information needed to complete your election form.

MONTHLY RETIREMENT BENEFIT
If you elect the BackDROP, your monthly retirement benefit will be calculated using your final average pay (FAP) and creditable service as of the BackDROP date.

If you do not elect the BackDROP your monthly retirement benefit will be calculated using your final average pay and creditable service as of your actual retirement date. You are not required to elect the BackDROP regardless of how long you work beyond normal retirement eligibility – that decision is up to you.

DISTRIBUTION OPTIONS
The BackDROP distribution is payable in either:

• One lump sum payment at retirement.
• Three annual installments (one with your first monthly benefit payment and one each of the following two years thereafter). Three annual installments are only available to members electing the cash option payment method. 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.

PAYMENT METHODS
If you elect the BackDROP, you must complete and submit a BackDROP Distribution Form. You may receive your BackDROP distribution in one of three ways:

• Cash Option - If you elect the cash option, the distribution will be paid directly to you. MOSERS is required to withhold 20% of the payment and send it to the IRS as income tax withholding. 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. You may be able to use special tax rules that could reduce the tax you owe. NOTE: If you receive a cash payment before you reach age 59 1/2 and you do not roll it over, you may have to pay a penalty equal to 10% of the taxable portion of the payment in addition to the regular income tax. Consult our Special Tax Notice brochure for a list of exceptions.

• Rollover Option - If you elect the rollover option, your payment will be made directly to an individual retirement arrangement, or if you choose, to another eligible employer plan that will accept your rollover. 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.

• Combination Cash and Rollover Option - If you elect this option, you may specify the amount of the distribution to be paid directly to you (less the required 20% income tax withholding). The remaining balance will be paid to a traditional IRA or another eligible employer plan.

For a detailed explanation of the payment methods and tax consequences, please review our Special Tax Notice brochure, which is available on our website (www.mosers.org). We recommend you contact a tax consultant or financial advisor before electing a payment method.
**BackDROP EXAMPLE**

The BackDROP is available to general state employees in the MSEP and the MSEP 2000. The following example provides a comparison of four key elements regarding your BackDROP election (total service, final average pay, total monthly benefit, and the lump sum payment).

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>Total Service*</th>
<th>Final Average Pay</th>
<th>Monthly Benefit**</th>
<th>Lump Sum Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>No BackDROP 35 yrs. 6 mos.</td>
<td>$2,442.96</td>
<td>$2,168.13</td>
<td>N/A</td>
</tr>
<tr>
<td>1 Yr. BackDROP 34 yrs. 6 mos.</td>
<td>$2,373.31</td>
<td>$2,093.59</td>
<td>$22,107.38</td>
</tr>
<tr>
<td>2 Yr. BackDROP 33 yrs. 6 mos.</td>
<td>$2,283.92</td>
<td>$2,000.88</td>
<td>$41,786.50</td>
</tr>
<tr>
<td>3 Yr. BackDROP 32 yrs. 6 mos.</td>
<td>$2,195.91</td>
<td>$1,908.86</td>
<td>$59,133.78</td>
</tr>
<tr>
<td>4 Yr. BackDROP 31 yrs. 6 mos.</td>
<td>$2,093.04</td>
<td>$1,803.59</td>
<td>$73,674.25</td>
</tr>
<tr>
<td>Maximum 5 Yr. BackDROP 30 yrs. 6 mos.</td>
<td>$2,002.37</td>
<td>$1,708.73</td>
<td>$86,288.76</td>
</tr>
</tbody>
</table>

*Includes unused sick leave.
**Includes a temporary benefit which stops at age 62.

The following shows how the BackDROP lump sum distribution is calculated and the tax consequences of electing the cash payment option.

**Assumptions used for illustrative purposes only**

Retirement Plan ......................... MSEP 2000
BackDROP Period Selected .................. 3 Years
Annual COLA Rate ......................... 2.277% (80% of the change in the Consumer Price Index)

**Base Benefit**

$2,195.91 x .017 x 32.5 = $1,213.24

**Temporary Benefit**

$2,195.91 x .008 x 32.5 = $570.94

Total Monthly Benefit (until age 62)

$1,213.24 + $570.94 = $1,784.18

**Retirement Benefits Accrued During BackDROP Period**

(2nd and 3rd years include 2.277% annual COLA)

<table>
<thead>
<tr>
<th>Monthly</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Year Benefits</td>
<td>$1,784.18</td>
</tr>
<tr>
<td>2nd Year Benefits</td>
<td>$1,824.81</td>
</tr>
<tr>
<td>3rd Year Benefits</td>
<td>$1,866.36</td>
</tr>
<tr>
<td>Total Benefits</td>
<td>$65,704.20</td>
</tr>
</tbody>
</table>

**BackDROP Distribution**

$65,704.20 x .90 = $59,133.78 (lump sum payment)

- or -

$59,133.78 - 3 = $19,711.26 (three annual installments)

**Tax Withholding if Electing the Cash Option to Receive One Lump Sum Payment**

$59,133.78 x .20 = $11,826.76 (20% withholding)

$59,133.78 - $11,826.76 = $47,307.02 *

**Tax Withholding if Electing the Cash Option to Receive Three Annual Installments**

$19,711.26 x .20 = $3,942.25 (20% withholding)

$19,711.26 - $3,942.25 = $15,769.01 *

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

In addition to this BackDROP payment, your monthly retirement benefit on your actual retirement date would be as follows:

**Monthly Benefit on Actual Retirement Date**

(beginning of 4th year - includes COLA)

$1,908.86

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.

This publication may be provided in alternative formats. To obtain alternative formats, please contact MOSERS.

**BackDROP General State Employees**

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